

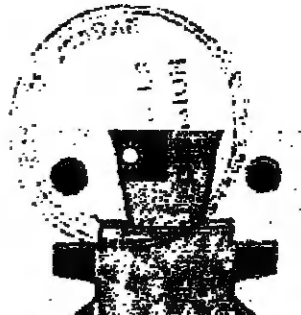
Clearing up
Banks take the risk
out of settlement
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Algerian gamble
French gamble
may not pay off
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Humans v robots
How Toyota keeps
a balance
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Taiwan and China
Once again on
speaking terms
Page 4

FINANCIAL TIMES

Europe's Business Newspaper

TUESDAY AUGUST 9 1994

D8523A

Royal Oak raises offer to C\$2.4bn in fight for Lac

Royal Oak Mines, Vancouver-based gold producer, lifted its bid for Lac Minerals, the much larger Canadian mining group, by about 14 per cent to C\$2.4bn (US\$1.73bn). The latest offer substantially raises the amount of cash available to Lac shareholders. Analysts predicted that American Barrick, which has submitted a rival C\$2.2bn bid, would sweeten its package, or that other offers would surface. Page 15

Wallenberg raises stake in SE-Banken
Sweden's Wallenberg group has sharply tightened its grip on Skandinaviska Enskilda Banken, the country's largest commercial bank, after buying nearly 30m A shares worth almost SKr1bn (\$128m). Page 15

Peru president's wife may oppose him
Susana Higuchi (left), wife of Peruvian president Alberto Fujimori, said she might stand against him as a presidential candidate and has complained to the attorney-general that legislation prohibiting the president's close relatives from running for office is unconstitutional. Page 14

Charge puts Sara Lee in the red
International food and personal products company Sara Lee suffered a net fourth-quarter loss of \$308m after a previously announced \$455m restructuring charge to trim costs in its hosiery division. Page 17

Sharp fall in coffee prices
Coffee futures in New York lost nearly 11 per cent in late trading as investment funds and other speculative players pulled out. Commodities, Page 22

NKK to transfer jobs
Losmaking Japanese steelmaker NKK said it would shed 1,300 jobs by transferring staff to affiliates or customers. Page 4

BA's 40% rise leaves City unimpressed
British Airways reported a 40 per cent increase in first quarter pre-tax profits to £88m. Although in line with expectations, they did not match the more bullish forecasts of more than £90m pre-tax and BA shares fell 12p to close at 417p. Page 15; Lex, Page 14

India's trade gap narrows
India's exports grew 9.5 per cent to reach \$5.6bn in the first three months of the fiscal year and the country's trade balance for the period fell to \$197.94m from \$301.42m, the commerce ministry reported. Page 4

Record results from US stores
US stores group May Department Stores reported second quarter net income up 11 per cent to \$130m and said sales and earnings reached record highs in the six months to July. The group plans to open more stores. Page 17

Charter stands by Esab bid
UK industrial group Charter said it stood by its bid for Esab in spite of a further rise in the Swedish welding group's shares above the offer price following a sharp upgrade in the company's profits forecast. Page 15

Boeing in \$600m Chinese deal
Boeing signed its biggest manufacturing agreement with a Chinese company with a contract worth about \$600m for the Xian Aircraft Company to supply aft sections for Boeing's 737 twin-engine airliners. Page 3

Claims for business failures falls
UK trade credit insurance company Trade Indemnity demonstrated the impact of an improving economy as gross claims against policies fell by 45 per cent in the first half of the year. Page 20

Two navy ships protect trawlers
Two Royal Navy ships will be in place in the Bay of Biscay later today to protect Cornish fishing vessels from further attacks by Spanish fishermen angry at their use of driftnets to catch tuna. Page 7

Smith & Nephew sells loemaker
Healthcare products maker Smith & Nephew sold its worst performing business, Ioptex, which makes eye implants, for £11m (\$17m) - about £150m less than it paid for it in 1988. Page 16; Lex, Page 14

Seatchi & Seatchi beat forecasts
Advertising group Seatchi & Seatchi announced higher than expected interim pre-tax profits of £15.3m (\$23.7m), up 68 per cent on the previous year. Chief executive Charlie Scott said the volume and quality of new business this year was the best since he joined the group in 1990. Page 16

STOCK MARKET INDICES			
FT-SE 100	3,171.3	(+4.4)	
Yield	3.85		
FT-SE 250	1,408.19	(+3.07)	
FT-SE 100-250	1,387.71	(+0.26)	
Nikkei	20,535.53	(+114.13)	
New York	10,344.00	(+7.44)	
Dow Jones Ind Ave	3,754.48	(+0.69)	
S&P Composite	457.75	(+0.69)	
US LUNCHTIME RATES			
3-mo Treasury	4.5%		
3-mo Treasury Bill	4.5%		
Long Bond	7.54		
LONDON MONEY			
3-mo interest	5.75%	(same)	
Life long bill	5.125%	(102.2)	
NORTH SEA OIL (Argus)			
Brent 15-day Sep	\$15.11	(17.88)	
GOLD			
New York Comex (Dec)	\$382.3	(82.5)	
London	\$378.0	(77.5)	
STERLING			
New York	1.5419	(1.5419)	
London	1.5419	(1.5419)	
FR	2.438	(2.438)	
DM	2.438	(2.438)	
FF	2.438	(2.438)	
SP	2.438	(2.438)	
Y	198.274	(198.274)	
E index	79.5	(79.5)	
DOLLAR			
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López spreads his gospel to the adjustable desk

By Christopher Paries in Frankfurt

Putting Volkswagen back on its feet is not most people's idea of a part-time job, but the motor group's second-in-command, Mr José Ignacio López de Arriortua, has found time enough for a spot of freelancing in the furniture trade.

For the past six months he has been helping fit a new set of legs to Flötotto, a small private company manufacturing office and school furniture. In October, VW's production director will make a personal appearance at a Cologne trade fair where he will share the limelight with the Glitersloh company's latest product: a desk.

No ordinary desk, it is being touted as an adjustable work station, developed, designed and manufactured according to the gospel of lean production and continuous improvement so vigorously promulgated by Mr López since his stormy arrival in Germany from General Motors in March 1993.

His involvement followed extensive consultations with Japanese and other experts in modern manufacturing techniques by company owner, Mr Reinhard Flötotto.

According to his spokesman, Mr Flötotto needed someone who would support management in pushing through changes necessary to counter the effects of recession and structural crisis which had knocked up to 40 per cent of earnings in the office furniture sector.

Mr Flötotto, he said, had no qualms about approaching Germany's unofficial Archbishop of the Church of Continuous Improvement Processes, and signing him up for a "co-operation agreement".

Brussels plan may lead to higher prices for car parts

Commission plans to unify rules on design protection

By Emma Tucker in Brussels

European car owners may be forced to pay higher prices for spare parts and banned from shopping around for better deals under European Commission proposals to harmonise rules governing the legal protection of industrial design.

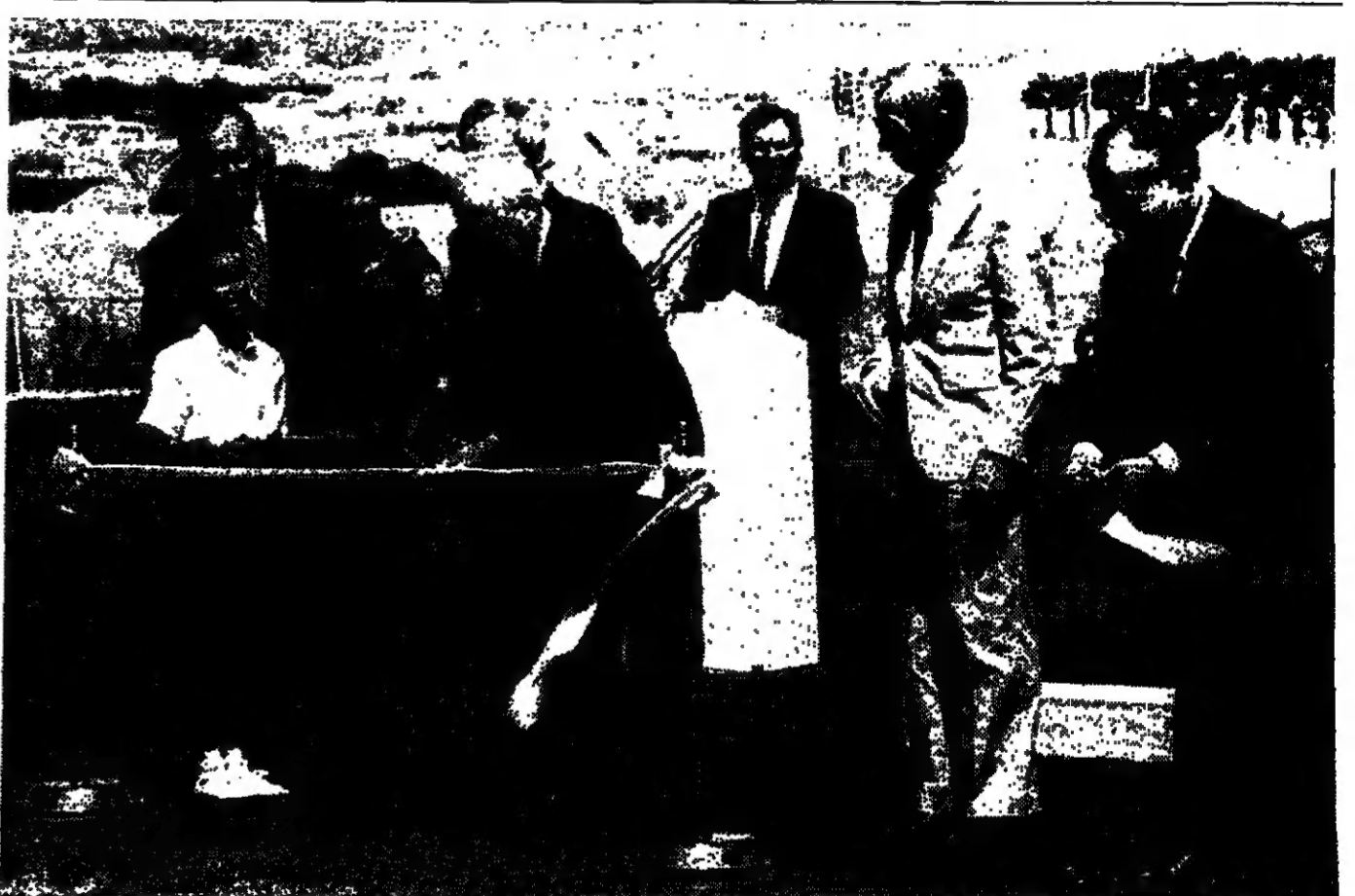
The Commission's plans will insist that certain car body parts be legally protected for the first three years after a car is launched, giving the manufacturers the exclusive right to supply spares during that period.

Consumers and independent suppliers fear the proposals will stifle competition and allow car manufacturers to charge what they wish for windcreens, panels, headlamps and other parts.

The Commission's plans will insist that certain car body parts be legally protected for the first three years after a car is launched, giving the manufacturers the exclusive right to supply spares during that period.

Continued on Page 14

Toyota helps to ease the daily grind, Page 10



Jordan's Crown Prince Hassan (right) and Israeli premier Yitzhak Rabin cut the ribbons to inaugurate the new border crossing

Minefield offers route to Jordan

Israel and Jordan changed the road map of the Middle East yesterday, opening a border crossing on a former minefield and inaugurating what Jordan's Crown Prince Hassan described as "a commonwealth of shared human interests" that would do away with regional poverty and injustice.

Julian Assange reports from the Israel-Jordan border. The crown prince, with Mr Yitzhak Rabin, Israeli prime minister, and US secretary of state Warren Christopher all emphasised the border opening would pave the way to a tourism boom, business and commercial contacts and economic co-operation.

The king then took Mr Rabin for an afternoon cruise on the royal yacht across the Red Sea dividing their countries.

"Three weeks ago the dream of peace was far away," Mr Rabin said shortly before he and Prince Hassan cut the white ribbon opening the new border 3km north of the Red Sea ports of Aqaba in Jordan and Eilat in Israel. "Today it is materialising: telephone lines, tourism. Soon it will seem as though this is the way it has always been." The prince said the border was the beginning of regional transport

Bank's verbal error in bid battle costs its client £4m

By Simon Davies and Norma Cohen in London

A technical slip by Schroders, one of London's leading merchant banks, is to result in an unprecedented £4m (\$6m) compensation payment to investors who sold shares in a takeover target on the basis of a misleading announcement.

The financial adviser's mistake - the failure to include a standard phrase in a statement to the London Stock Exchange - was described yesterday by one adviser involved in the bid as "like leaving a full stop off the end of a sentence".

It could have spelled failure for a bid by Schroders' client, the US funeral group Service Corporation International, but the Take-over Panel - London's self-regulatory body for bids - yesterday provisionally forgave the lapse as an "innocent mistake".

As a result, SCI made a third offer for Great Southern, which finally got the backing of the controlling shareholders of the UK funeral company. The new bid, at 775p per ordinary share, values Great Southern at £112.9m.

The Panel tomorrow morning will hear an appeal against its provisional decision to allow the new offer to proceed.

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The Toyo Trust and Banking Company, Limited

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Barclays Bank PLC

NEWS: EUROPE

Italian rail deal raises wage cost fears

By Andrew Hill in Milan

Mr. Publio Fiori, Italy's transport minister, has again stirred up controversy by intervening to avoid industrial action by a maverick transport union, at the risk of provoking increased salary demands from other employees.

Mr. Fiori struck an informal deal on bonus pay with Comu, the Italian train drivers' union, at the end of last week, averting a strike which threatened

to disrupt rail traffic on the busiest holiday weekend.

The accord provoked a sharp reaction from Italy's larger unions, and has raised fears that it will be difficult to rein in labour costs as the government's economic team has demanded when the Ferrovie dello Stato, the state-owned company which runs the railway system, begins formal negotiations with its 140,000 employees in September.

Last month, Mr. Fiori waded

into the dispute between Alitalia, the state airline, and cabin staff, by announcing an inquiry into the failure of the company's management to foresee wildcat strike action by a small breakaway union. An accord was eventually reached on radical restructuring plans in spite of Mr. Fiori's intervention, which management feared would undermine their efforts.

In the wake of the Comu deal, stationmasters have

called strikes for August 21 and September 16. The FS has estimated the cost of the informal deal at 1,700m (\$28m) for the 20,000 train drivers, rising to nearly 14,000m if the company is forced to concede similar bonuses to other staff.

The FS yesterday refused official comment, pointing out merely that Mr. Fiori's intervention was "anomalous" given the FS's shareholder was not the Transport Ministry, but the Treasury - which, under

Mr. Lamberto Dini, had been pushing for a strict line on wage negotiations.

Mr. Fiori, a member of the far right coalition member, the National Alliance, said last week that the agreement with Comu would "commit" the FS to pay the bonus to the drivers from October 1994. The FS believes the accord is not legally binding, but is still worried about the political precedent which has been set. Doubt has also been cast on the

necessity for such concessions. The state railway claims earlier industrial action by the union affected less than half of rail services, with inter-city services running normally.

Leaders of the main union federations have also criticised the deal, pointing out that their members can hardly be expected to support the government's tough economic objectives if ministers grant individual increases to single categories of workers.

Germans fear delay in VAT changes

By Quentin Peel in Bonn

German industrialists were warned yesterday that a new collection system for value added tax in the European Union might be seriously delayed.

It was intended to streamline and simplify the cumbersome transitional system currently in operation. However, tax experts in Bonn fear that opposition to the new rules from other member states could put back the plan until the introduction of a single European currency, in 1999 or even later.

The new system, requiring that VAT payments be levied at the rate applicable in a product's country of origin rather than its country of sale, is an important element in finalising details of the single European market.

Talks in Brussels between German business leaders and the European Commission have produced no reassurance for their anxieties, the German chambers of commerce and industry (DIHT) said yesterday.

They warned that the whole principle of collecting VAT on the country-of-origin basis, which would favour big net exporters such as Germany, could fall because of the current disagreements.

"The DIHT sees with great concern (the possibility) that the so-called country-of-origin system for VAT in the European Union will fail," the German business lobby said. "That principle must not be overturned."

The German industrialists have been much the most energetic in seeking to simplify the present transitional arrangements, which require companies to do all the paperwork for VAT returns formerly carried out by the customs authorities.

They have expressed surprise at the relative lack of support from business groups in other member states.

The DIHT said that much of the opposition to the new system came from EU governments who feared they would lose tax revenues if the VAT was collected at the point of manufacture and not of sale. But the transitional rules were imposing a substantial extra cost on companies in all member states.

It warned that a "costly compromise for the business community" which might emerge would be to delay introduction of the final system until the EU had been able to make significant progress towards creation of a single currency. Under present circumstances that could well mean 1999 or even later.

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The tinkering engineer who serves as the symbol of Ukraine's quiet revival

Chrystia Freeland visits a surgical needle-maker with a pointer to the future



Ukraine stirs

Mr. Viktor Skuratovsky, a former professor of mechanical engineering, is the sort of man who, were he an American,

would spend his weekends tinkering in his garage and his weekdays parlaying his technical ingenuity into a growing business.

But Mr. Skuratovsky was born in Ukraine and for the first five decades of his life his inventive drive earned him admonitions rather than rewards. In the 1980s he was dismissed from his job as an engineering professor because of his Ukrainian Catholic faith and he spent the rest of the decade struggling to produce surgical needles with his own unique process in the cramped basement of a Kiev hospital.

For Mr. Skuratovsky things are at last starting to change. Ukraine's government is incompetent and its state sector largely moribund, but slowly opportunities are opening for private thinkers and tinkers. Without taking into consideration the fast-growing shadow economy, the private sector accounted for 30 per cent of Ukraine's gross national product in the first quarter of this year.

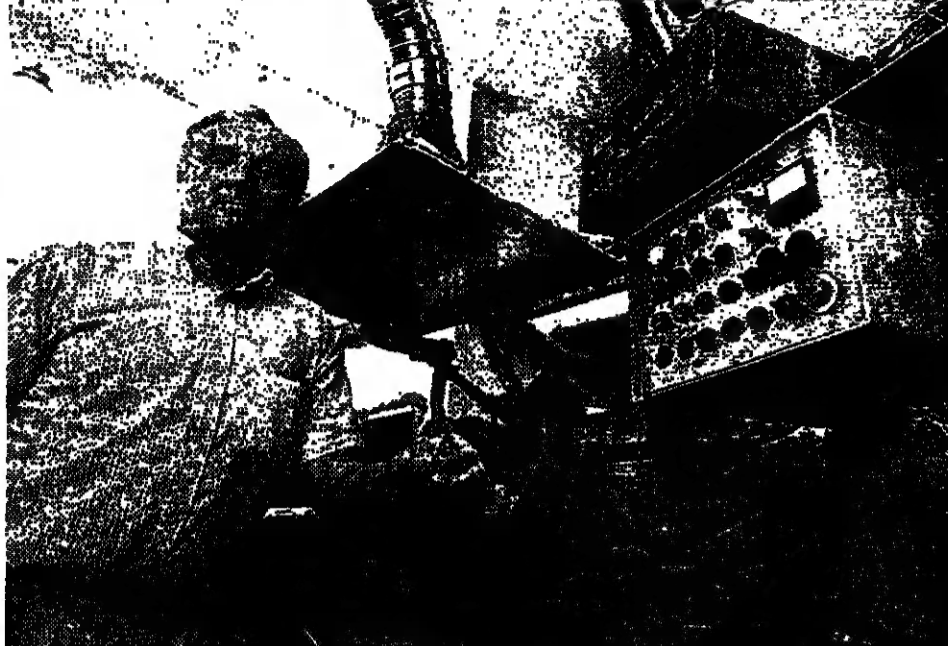
That figure, and the expected continued growth of the private sector, is thanks to a new breed of businessmen like Mr. Skuratovsky. Together with Mr. Andrii Smirnov, a former student, and Mr. Evhen Stychynsky, a young lawyer, Mr. Skuratovsky has found an American partner and American investors for his business. Their joint venture, Holmit, was due to begin production of surgical needles this summer and they hope by the end of the year to be up to capacity of 2m needles a year.

The owners of Holmit have an engineer's scorn for the new businessmen who have capitalised on government connections, or muscle, or both, to earn instant fortunes by selling commodities at bargain prices and importing often shoddy western consumer goods.

"Our principle, from the very beginning, has been not to engage in these easy trading operations," Mr. Smirnov says. "No matter what is happening now, we are convinced that eventually, any nation's economic strength is in manufacturing."

Ukraine has a vast manufacturing base, but, as in other former Soviet republics, in the past the country's technical expertise was almost exclusively devoted to the military sector. Holmit, and other small factories like it, are engaged in conversion by stealth.

The two massive lathes in Holmit's brand new workshop amazed the company's new American partners from Look, a Massachusetts-based producer of surgical needles. Purchased at cut-rate prices from



Viktor Skuratovsky with one of the lathes purchased from the defence sector and appropriated in a conversion by stealth

President Leonid Kuchma yesterday tightened conditions for granting aid to Ukrainian state companies, Reuters reports from Kiev. It was the first of a series of measures intended to shore up the collapsing economy, according to his economic adviser, Mr. Volodymyr Kuznetsov.

Under the new decree financial assistance, mostly in the form of loans, will be given only after the companies provide a business plan or restructuring programme. The government will also have to work out a mechanism for

providing outright aid to some enterprises of strategic importance. The decree defined state enterprises as those in which the state has at least a 50 per cent share.

Mr. Kuznetsov said six other draft decrees on stabilising the economy, including currency regulation, customs policy and tax reform, were likely to be signed later this week. Ukrainian enterprises owe each other \$4.4bn and the mutual indebtedness is one of the country's main economic problems.

cash-starved Ukrainian defence plants, the lathes, according to the Americans, are so sophisticated "you can make rockets with these things."

Mr. Skuratovsky has fitted out his factory at a fraction of the price he would pay in the west thanks to the managers of military factories, once the Soviet Union's industrial élite, but now squeezed by the nearly bankrupt Ukrainian central government, who were delighted to earn money from equipment for which they no longer had any use.

Another advantage Holmit has over fledgling manufacturers in the west is a skilled populace, desperate to leave jobs in the collapsing state sector.

While Holmit is confident about the technical skills of its new workers, it demands a change in attitude.

"When people come in for a job interview, the first thing I tell them is that this is not a socialist workplace, it is the new Ukrainian capitalism," says Mr. Smirnov, the partner in charge of hiring. "There will be no trade unions and no communist party cells here. Those who work well will be well rewarded, those who don't will be fired."

Though Holmit's version of capitalism, Ukraine-style, promises to be far tougher than its western counterpart, Mr. Skuratovsky is grateful for the participation of his American partners. What Look and the Ukraine Fund, a US based venture capital fund which invests in small Ukrainian

businesses, have contributed to Holmit is quality control techniques, packaging, marketing expertise and capital. Holmit and its investors hope that with this combination of Ukrainian know-how and western money, the company will be able to corner the market in the former Soviet Union, which has no indigenous large-scale manufacturer of surgical needles.

"Western aid has destroyed the market in Moscow and St. Petersburg," Mr. Skuratovsky says. "Why pay for what you can get for free?" But he believes there is a huge, untapped market in Ukraine, provincial Russia and central Asia where surgeons, unable to find the appropriate instruments, often resort to inadequately sterilised, inappropriate needles and sutures.

For the privilege of filling this needed gap in the Ukrainian market, Mr. Skuratovsky and his partners have had to negotiate a Kafkaesque bureaucratic obstacle course. Everyone from the local fire department, to the tax inspectors to the civic administration must be, as Mr. Stychynsky, the lawyer, delicately puts it, "taken into consideration."

And Holmit has it better than most Ukrainian companies because the country's favourable legislation on foreign investment allows Holmit, as a joint venture, to take a five-year holiday from punitive taxes which, if rigorously applied, can consume all of a company's profits.

Somehow, Mr. Skuratovsky and his partners retain their confidence that they will manage to continue to circumvent their nation's administrative labyrinth. Even as construction workers were putting the finishing touches to their new workshop, they avidly described the really perfect factory they hoped to be able to build in five years' time.

And over coffee, Mr. Skuratovsky is unable to resist the temptation to pull out a pen, take a napkin and illustrate his newest invention for an even better lathoscopic needle.

This is the second article in a three-part series on Ukraine. The first appeared yesterday.

MMM hunger strikers held by police

By Chrystia Freeland in Moscow

Four shareholders of the troubled Russian investment fund MMM were arrested yesterday. They had begun a hunger strike in solidarity with Mr. Sergei Mavrodi, president of the fund whose operations were frozen last week. After demonstrations in Moscow demanding Mr. Mavrodi's immediate release and an end to "a state attack" on the MMM fund, three of them were charged with illegal picketing and one with "insulting behaviour".

Shareholders at one of the demonstrations outside the White House, headquarters of the Russian govern-

ment, described Mr. Mavrodi as "a saviour who can return to the Russian people the savings accounts and pensions which the government has confiscated through its economic reforms". They demanded the government release Mr. Mavrodi, who himself began a hunger strike last weekend, and cut or eliminate taxes on his businesses, so MMM could return his money.

Meanwhile, the authorities have intensified their crackdown on the investment fund, whose share has dropped to one fifth of its previous value over the past two weeks. Tax officials announced that they were extending by 10 days the detention in

solitary confinement of Mr. Mavrodi, who is accused of tax evasion. An association of Russian businessmen also said they had begun a private investigation into Mr. Mavrodi's misdeeds.

However, the shareholders' spirited protests suggest that the government's strong-arm tactics against Mr. Mavrodi are beginning to backfire. Mr. Mavrodi, who first demonstrated his ability to tap into the Russian psyche with MMM's phenomenally successful advertising campaign, has managed to shift the rage of frustrated investors from himself to the state.

"Thanks to the state's intervention, MMM has succeeded in evading respon-

sibility for the pyramid scheme," said Mr. Igor Bunnin, a sociologist studying Russia's fledgling capitalism. "Now there is even a chance that Mr. Mavrodi, when he is eventually released, will be able to start another operation of the same sort."

Mr. Sergei Tarasov, MMM's spokesman, accused the tax police of forging the arrest warrant for Mr. Mavrodi. He said the fund could not resume "normal operations" until Mr. Mavrodi's release, but he assured shareholders that, despite his hunger strike, the president was still in good health. "Mr. Mavrodi has no intention of dying," Mr. Tarasov said.

Dutch snuff out church candle cartel

The stiff wind of competition is blowing through the candle-lit churches of the Netherlands, where members of the Church Candles Convention have been forced by European Union rules to change their ways and abandon the practice of price fixing.

This week, as part of its drive to eliminate cartels, the government outlawed a price-fixing arrangement that has been operated by the convention's 12 members since the first world war.

The companies, which supply candles to mainly Catholic churches, have not decided whether to appeal. "To be successful, we'd have to prove that the price arrangements are in the interest of the Netherlands as a whole," said Mr. Gody van den Hurk, secretary of the industry association. They are not alone in feeling the heat of the government's campaign

EU rules have ended a price arrangement dating back to first world war, writes Ronald van de Krol

against cartels. Until recently, the Netherlands was alone in the EU to permit cartels, provided they were not expressly forbidden and were entered in a secret government register.

The Netherlands forbade price-fixing agreements in 1993, and this year it outlawed market-sharing and tender-fixing agreements. So far, it has not granted a single exemption to the rules, not even to the 12 church candle-makers.

"We've never heard objections from fellow manufacturers or the churches themselves," said a spokesman for Van Manen, a family-owned candle-maker.

"The market for church candles is not expanding, and there's no growth in the number of churches. If anything, the trend is downwards."

Mr. Jacques Klok, chairman of the finance directors of the Catholic Church's seven Dutch bishoprics, said: "To us, what is important is that there are enough candle-makers in the Netherlands."

Each of the church's 1,800 Dutch parishes buys its own candles from its own long-standing suppliers. According to Mr. van den Hurk, because of these traditional links between priests and the companies which have supplied local churches for generations, there is little likelihood of cut-throat competition emerging.

Attentive service and quick deliveries are probably more important to churches than price alone, he believed.

The mainstay of the industry is the devotional candles which

light candles during the week. In the countryside, candle-lighting tends to be restricted to once or twice a week.

Together, Dutch churches spend up to Fl 5m a year on candles, a fraction of the country's total Fl 200m annual consumption of candles.

Besides church candle-makers, other business sectors that have failed to win exemptions from the new cartel rules include the country's aviation schools, which wanted to continue their policy of charging a basic minimum for parachute courses.

Dutch estate agents also dropped their minimum commission under government pressure and, instead, adopted a system of negotiable, recommended charges. This week, however, a Dutch house-owners' lobby group claimed that some agents were still agreeing commission levels and presenting a united front to prospective house-buyers.

EUROPEAN NEWS DIGEST

Enel to be sold off before Stet

Enel, the Italian state electricity utility, will be privatised before Stet, the telecommunications holding company, according to Italy's industry minister. In an interview published in the weekly magazine L'Espresso, Mr. Vito Gnutti said Stet would not be privatised until 1995, whereas "in September or October we should have the papers ready for a decision on Enel". Such a timetable, if confirmed, is likely to disappoint Stet's former managing director, Mr. Michele Tedeschi, who took over last week as chairman of Iri, the state holding company which is Stet's parent. He said a week ago that he hoped Stet would be privatised in the autumn, as originally planned. Both privatisations are likely to be complicated by political and market pressures. Enel and Stet will be among the largest state companies to be privatised in the two-year programme of sell-offs, and is politically the most sensitive. The government must set up regulatory authorities for the two industries before it can even attempt privatisation.

The Italian treasury announced at the weekend that it had raised L4,512bn (L1.57bn) in June by selling half of Ina, the state-owned insurer, in the largest privatisation so far. Ina's shareholders, which include a range of Italian and foreign funds, will have a chance to vote for new directors of the company at an autumn assembly, the treasury confirmed.

Andrew Hill, Milan

Berlusconi adverts dropped

The Italian state broadcaster, the Rai, said yesterday it was suspending a television advertising campaign designed to boost the image of Prime Minister Silvio Berlusconi's government. The Rai decided to suspend the government advertisements, launched only 48 hours earlier, after Italy's media ombudsman intervened. The decision to suspend the advertisements is another slap in the face for a government which last month suffered a series of embarrassing setbacks, including the withdrawal of a decree limiting magistrates' use of pre-trial custody. The first of the 45-second advertisements, accompanied by the slogan "Facts which citizens should know to exercise their rights", was broadcast on Saturday, and outlined the achievements of the government since its appointment in May. Italian law allows the government to use the media to publish information of "social relevance", but opposition parties said the campaign was pure propaganda. Reuters, Rome

Sarajevo military ban urged

The commander of UN troops in Bosnia called yesterday for a demilitarised zone around Sarajevo after Nato aircraft struck at defiant Serbs last Friday. Lt-Gen Sir Michael Rose was trying to set up a meeting with the commander of the Bosnian Serb forces, Gen. Ratko Mladic, to discuss the issue, a UN official said. The plan calls for a withdrawal of all armed and uniformed soldiers and would allow both Serb and Muslim forces to take their weapons out of the zone. However, there has been no response from Gen. Mladic, whose forces in Sarajevo have been blamed for an increasing number of sniping incidents. Reuters, Sarajevo

Athens firm on airport strike

Greece's Socialist government yesterday refused to bow to pay demands from air traffic controllers, who are disrupting flights with a go-slow. Foreign tourists have faced long delays at Athens airport since May, mainly because of the protest by 500 controllers. Mr. Theodoros Pangalos, transport and communications minister, told the controllers' union in a letter: "I will agree to fresh talks on condition you drop your demand for pay rises in 1994 and 1995. I will not grant one drachma beyond inflation and nothing will make me change my stand. The claim would bring pay from Dr600,000 (L1,625) a month to Dr1m." He said he was considering transferring air traffic controllers to the defence ministry's jurisdiction, where security considerations would make conditions tougher. Reuters, Athens

Aer Lingus staff step up action

Workers at Aer Lingus, Ireland's state-owned airline, plan to step up a dispute over pay-offs and cost-cutting with eight days of protests, a union spokesman said yesterday. Staff at the airline's maintenance subsidiary met earlier to discuss action after talks with the company and mediators failed. The protests - involving a series of blockades on roads around the airport - will start today. A union official said: "The action is going to last until the issue is resolved... It is likely that there will be serious disruption." Reuters, Dublin

Czech capital inflows rise

The Czech National Bank has revised sharply upwards its estimate of foreign capital inflows for 1994 from Kcs60bn (L1.23bn) to Kcs100bn, but stressed that the inflationary effect would be broadly neutral. The pace of foreign capital inflows has pushed up M2 money supply to a preliminary 7.4 per cent in June from 3.7 per cent in April, and an average 1.3 per cent in the first quarter of 1994. Year-on-year inflation in June was 9.7 per cent, up from 9.3 per cent in May and 9.2 per cent in April, and close to the target of 10 per cent set by the CNB at the beginning of the year. Vincent Boland, Prague

Goodwill games hit for six

Parachutists with bad timing knocked down a group of youths marching with banners over the weekend in a fittingly clumsy conclusion to St. Petersburg's Goodwill Games. As an effort to reclaim its historic place as Russia's "window on the west", the international sporting event has sorely backfired for St. Petersburg. The swimming was postponed for a day because of pool water so filthy that western teams decanted it into plastic bottles to show friends back home. Skaters faced no better: the ice was so thin and so soft that their events were delayed as well. CNN owner Mr. Ted Turner, who organised the games, put a brave face on the sparsely attended event, describing it as "a huge success". Chrystia Freeland, Moscow

ECONOMIC WATCH

Norway's deficit below forecast

Norway's budget deficit could fall below Nkr300bn (L2.83bn) in 1995 if prices for the country's North Sea oil remain strong, the Finance Ministry said. For the current year it said the deficit would be less than Nkr400bn, compared to a forecast of Nkr425bn. Norway, Europe's biggest oil producer, produced a record 2.67m barrels per day in June. The Labour government has forecast a 1994 oil price of Nkr110 a barrel. Reuters, Oslo

■ Car sales in Spain rose 16.6 per cent to 101,748 in July compared with 87,247 in the same month last year, the national carmakers' association said. The increase in the first seven months was 18.9 per cent, but the total of 555,588 was still far less than the 646,570 registered in the same period of 1993 and 8.1 per cent below the average for the previous five years.

■ A seasonally adjusted 4,917 French companies failed in January, 0.1 per cent more than the 4,886 judged bankrupt in December, Insee, the national statistics office, said. However November 1993 to January 1994 was 1.5 per cent down on the same period a year earlier.

State fiscal budget balance, Mr. In

Surplus before loan transactions

Source: Ministry of Finance

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NEWS: WORLD TRADE

XAC to supply sections for 737 airliner Boeing in \$600m Chinese venture

By Tony Walker in Beijing

Boeing yesterday signed its biggest manufacturing agreement yet with a Chinese company when its president initiated a \$600m contract for the supply of all sections for its 737 twin-engine airliner.

Mr Ron Woodard, president of Boeing, said the Xian Aircraft Company (XAC), was "now elevating itself from a producer of major assemblies to manufacturer of an entire Boeing aeroplane section."

XAC has been manufacturing parts for Boeing aircraft since the 1980s, including vertical fins, horizontal stabilisers and forward access doors. But this will be the first time it will have manufactured the whole section of an aircraft.

Boeing's decision to engage a Chinese company in a big pro-

duction venture reflects the company's desire to further consolidate its position in its fastest growing market.

"Support of China's aerospace industry has been a top priority for Boeing for many years," said Mr Woodard. "Much technology has been exchanged... enabling China's aerospace industry to be on a par with other world-class manufacturers."

Boeing supplied 45 jetliners to China last year or 14 per cent of its entire production of 330 aircraft. China this year is scheduled to receive 36 Boeing, or 14 per cent of the company's output of 260 aircraft.

China is also in the market for Boeing's newest jetliner, the 777, which is a medium-to-long-range wide-bodied jet with a capacity of up to 400 passengers. China Southern Airlines, based in Guangzhou, has

ordered six of the aircraft with the first due in May 1995.

Boeing also announced that it was upgrading its representation in China by basing a senior executive in Beijing. He will report directly to the president of the company in Seattle.

Boeing plans to spend \$100m in China over the next five years on upgrading its service and spare parts facilities and in assisting the Chinese to improve their maintenance and air safety standards.

Mr Woodard said Boeing hoped to continue its dominance of the China market with 65-75 per cent of new sales.

Boeing forecasts that the total market for commercial jet aircraft sales in China will be worth \$40bn until 2010. This would make China the world's third largest aviation market after the US and Japan.

Separately, Mr Woodard told reporters he expected that a feasibility study, involving Boeing, Chinese and Japanese organisations, into the co-production of a 100-seater jetliner for the Asia-Pacific would be completed within 18 months.

HK gives the world its phone number

Louise Lucas on foreign interest in a planned expansion of its mobile market

The Hong Kong government has increased the telecommunications industry with proposals to expand the mobile telephone market - a move widely tipped to have the effect of attracting competition from across the globe and expected to give the existing cellular operators a run for their money.

The government announced last month that it would award up to 10 new mobile licences as early as next April. The invitation to bid is bound to attract a wide number of bidders, including from Europe and the US. Hong Kong has no bars on foreign ownership or participation in its economy and licences are awarded on the basis of merit rather than being auctioned off to the highest bidder.

The new licences are being awarded on the basis of a projected total demand of 1.1m mobile phone users, or 18 per cent of the total Hong Kong population, by the end of 1998, which assumes current growth rates are maintained.

In a consultative paper issued in February, the government said it intended to award up to six Personal Communications Services (PCS) [also known as Personal Communication Network (PCN)] licences - mobile services

intended for the mass market with coverage comparable to existing cellular services and accessible through inexpensive and lightweight handsets.

Even this suggestion met with outrage - Pacific Link Communications, one of the existing cellular operators, advocated a ban on new licences for the time being; conversely two non-cellular operators urged discrimination against (if not a total veto on) those operators already providing cellular services.

But the submissions in response to the consultative paper that caused the greatest impact were those that called on the Office of the Telecommunications Authority (Ofa) to consider the advanced Japanese technology known as Personal Handy Phone System (PHS).

Hong Kong last week asked Japan's telecommunications ministry for co-operation in its plan to introduce the system.

The suggestion came in a proposal - outlined in the authority's report on the Future Regulation of Mobile Telecommunications Services in Hong Kong that followed the consultation process - to issue four new licences on PHS.

Mr Alex Arena, director-general of telecommunications for Ofa, says about half the 47

submissions made after the consultative paper mentioned PHS. "So I took the view, if the industry wants to use PHS and I have spectrum [frequencies] available, and if it meets the usual tests for developing a standard, I would be prepared to accept it for Hong Kong."

He disputes the notion of a "magic number", or ceiling, and points to the fast-growing pager market which, unhampered by regulatory barriers, has swollen to accommodate 34 licences.

"Competition has driven that market and grown that market and therefore many more licences can exist that would not have had the government decided four or five was the right number. We have been trying to get the message across that government's role is to create opportunities in the market. If they cannot make a business of it then the normal marketplace dynamics will take effect," he says.

But it is the nature of that competition which is disturbing the industry. Mr Douglas Li, chief executive of Smart-Tone, Hong Kong's newest cellular operator, says: "The government takes the view competition is good. But that's a narrow view. It seems logical and simple and appeals to the populous, but I think it's too

simplistic in the sense that overall if you look at Hong Kong as a whole all these networks are way too many.

"Economically it is not that efficient. Especially with PCN, the nature of which means you have to have substantial investment up front. By issuing licences all at the same time means some time in 1996/97 we will have this sudden emergence of a massive amount of capacity. People put hard dollars in to create those, and the only way is to make them pay is to grab customers. The most likely way to do that is by dropping the hell out of prices, but that means the financial case deteriorates, maybe beyond the pale."

Hongkong Telecom's deputy chief executive Peter Howell-Davies says: "Six PCN licences and four PHS licences is bold. Whether it's the best solution for Hong Kong I think needs - and am sure will receive - further consideration... We have counselled some caution on whether that's the best solution for Hong Kong. Knowing the industry is changing fairly rapidly."

Mr Andrew Harrington, senior analyst with Salomon Brothers in Hong Kong doubts there will be enough demand

to absorb more than two new licences - one PCN and one PHS.

Already three out of 10 people in Hong Kong have some form of mobile telephony, or around one per household, giving Hong Kong one of the highest penetrations in the world and putting it on a par with fixed wire telephone penetration in Taiwan and South Korea. "It takes a leap of faith there's significant long-term growth left in the market. How high can it go?" says Mr Harrington.

Mr Li of Smart-Tone is adamant the move will do little to enhance services to customers. "I don't think it is necessarily better for consumers. I can see the logic behind what they are saying, but I do feel by splitting the spectrum in so many parts it is not aiding efficiency on the part of the operators. It requires us to invest more and ultimately that (cost) has to be passed on to customers."

"It will lead to a massive amount of capacity and definitely bring down prices. Initially that's a great deal for the consumer, but I believe there will be casualties financially among the operators. If that kind of cost-cutting competition comes in then you will find possible deterioration in services offered."

India to publish guidelines for telecoms licences

By Andrew Adonis

The Indian government will publish guidelines this month for the licensing of private telecommunications operators, including overseas companies, but licences are not expected to be issued until next year.

Mr Nagarajan Vittal, the senior official responsible for Indian telecoms policy, said the new guidelines would specify the terms on which the state's existing telecoms monopoly will be abolished and private operators allowed to provide services.

"I would expect to see the first new operators licensed within three to six months after that," he said at the Asia-Pacific Telecommunity conference in Bangkok.

However, Mr Vittal indicated that an intense debate was continuing between the Telecom Commission, which he chairs, and the government, which is under strong pressure from India's state telecoms operators and trade unions to limit the degree and speed of liberalisation.

"They are afraid that the new competitors will be very quick in establishing themselves, and they are arguing this strongly at the centres of power," he said.

India has barely eight telephone lines per 1,000 people, and is looking to private companies, including foreign

groups, to invest up to \$5bn over the next three years to help meet the country's target of increasing its number of lines from 8m to at least 16m.

Warning those opposed to reform, Mr Vittal said there was a danger of "too much navel-gazing" while demand remained unmet. "Several other countries in the region are making much faster progress than us," he said, noting that India was competing with "at least 80 other countries" to attract foreign investment in telecoms.

More than 50 proposals have been put forward by private operators for providing basic telephony services, either in competition or co-operation with existing state operators. Overseas operators expressing interest include US West, Motorola and AT&T of the US, Siemens of Germany, and Fujitsu of Japan.

The guidelines will cover the terms on which private operators will be licensed and the proportion of foreign equity allowed in new undertakings. They will also include details of a new regulatory authority to be established to underpin the new competitive regime.

Mr Vittal said legislation would probably be required to establish the regulatory authority, but the government would be free to license new operators without recourse to special legislation.

NEWS IN BRIEF

Hyundai Indian deal

Hyundai, the South Korean industrial group, is setting up its first joint venture in India to make marine freight containers in collaboration with DCM Shriram group of Delhi, writes *Shiraz Siddiqui in New Delhi*. The new company, DCM Hyundai, will build a wholly export-oriented unit at Polivakkam, near Madras in Tamil Nadu, at the cost of Rs700m (\$220m), with an installed capacity of 18,000 TEUs (20ft equivalent unit). The Hyundai group will have a 15 per cent equity stake, and the DCM Shriram group, 26 per cent. DCM Shriram Industries, which has interests in sugar, chemicals, textiles, and leasing, has just begun a Reliance modernisation and expansion programme. Mr Banshi Dhar, DCM Hyundai chairman, said the company would enter the capital markets in the next two months to raise Rs150m for the project. The plant is expected to be operational by December.

ALCATEL, the French telecommunications group, yesterday announced an expansion of its presence in the South African market with the conclusion of a FF210m (\$38m) contract to supply a telephone transmission network to Eskom, the South African electricity board, writes *John Eddling in Paris*. The five-year contract, which was won by Alcatel Italia, the company's Italian subsidiary, includes the supply of medium and high capacity digital radio links and a network management centre.

KUWAIT yesterday signed a contract with a Russian state arms company to buy armoured personnel carriers and multiple rocket launchers, the state news agency Itar-Tass reported, writes *Christina Frelund in Moscow*. Kuwait is the first country to buy Russia's Smerch rocket launchers, which are the successors to the Katyusha system. A spokesman for Rosvooruzhenye, the state company through which the weapons are being sold, would not specify the price or quantity of armaments negotiated in the contract. Yesterday's deal is the most recent step in Russia's effort to revive its massive but cash-strapped defence sector by finding foreign buyers for the arms the Kremlin no longer wants or can afford. Government officials said yesterday that the Ministry of Defence, traditionally allowed nearly unlimited access to the state purse, is falling behind in payments to arms factories. The government's debt to the defence industry is one reason for Russia's dramatic fall in industrial production this year.

OECD Export Credit Rates	
The Organisation for Economic Co-operation and Development announced new minimum interest rates (%) for officially-supported export credits for August 1994 to September 1994 (June 1993 to July 1994 in brackets).	
0-Mark	7.47 (7.54)
Scu	8.17 (7.99)
French franc	8.06 (8.13)
Guilder	
up to 5 years	7.35 (7.55)
5 to 8.5 years	7.70 (7.50)
more than 8.5 years	8.25 (8.35)
Italian lire	10.29 (9.92)
Yen	4.30 (4.30)
Peseta	11.24 (10.82)
Sterling	8.26 (8.44)
Swiss franc	6.16 (6.28)
US dollar for credits	
up to 5 years	7.48 (7.27)
5 to 8.5 years	7.91 (7.70)
more than 8.5 years	8.12 (7.91)

These rates are published monthly by the Financial Times, normally in the middle of the month. A premium of 0.25 per cent is to be added to the credit rates when they are not in force. Interest rates may not be fixed for more than 120 days.

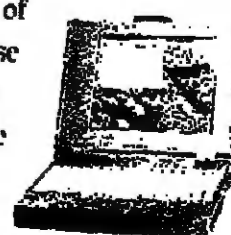
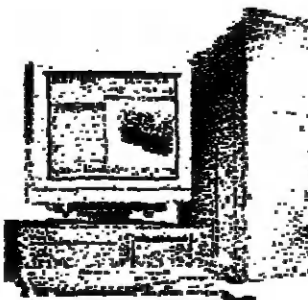
OECD-based rates of interest are the rates for a commercial bank for the period from July 15 to January 14 1995. The OECD-based rate will be 7.25 per cent. It replaces the previous rate of 5.00 per cent. The OECD-based rate will apply from January 15 1995.

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NEWS: INTERNATIONAL

Korean bribes probe draws in chaebol chiefs

By John Burton in Seoul

An expanded investigation into bribery involving Korea's nuclear energy programme threatens to implicate the heads of the Daewoo and Dongah industrial groups.

Prosecutors allege that the former president of Korea Electric Power (Kepco), the state-run electricity monopoly, received kickbacks totalling Won400m (\$244,112) from the two conglomerates for construction contracts of several nuclear plants and thermal power stations.

Mr Ahn Byong-wha, the Kepco president between 1989 and 1993, was arrested last week for allegedly accepting a Won200m bribe from the Korean agent for Atomic Energy of Canada involving a nuclear reactor contract. A total of five nuclear power plants were ordered by Kepco at a cost of \$100m (\$65.6m) during Mr Ahn's term.

Mr Kim Woo-choong, the Daewoo chairman and one of Korea's best-known businessmen, is expected to be interrogated today on his return from a business trip to Vietnam following the questioning of Mr Choi Won-suk, the Dongah chairman, over the weekend.

The business groups own two of the country's largest construction companies. Both men could be indicted on bribery charges if it is believed they gave kickbacks to Mr Ahn.

Mr Ahn is alleged to have demanded the money in order to bribe other government officials in the former administration of President Roh Tae-woo in an unsuccessful attempt to extend his term as Kepco president.

The Kepco investigation threatens to harm relations between the government and President Kim Young-sam and the country's big conglomerates, or chaebol.

Mr Kim initially took a tough stance against the chaebol last year in an effort to reduce their immense eco-

nomic and political influence. Several main groups, including Hyundai and Pohang Iron and Steel (Posco), were the target of corruption inquiries.

But the government adopted a conciliatory policy toward the chaebol earlier this year as part of an attempt to revive economic growth.

Political analysts believe that Mr Kim might once again be willing to challenge the chaebol in an effort to reverse his declining popularity after his ruling Democratic Liberal party lost two of three parliamentary by-elections last week.

The Korean public has generally mistrusted the power of the chaebol and the president's anti-corruption campaign last year contributed to his high approval ratings then.

It is thought Mr Kim may also try to use the Kepco investigation as a means to assert his authority in the DLP against the conservative faction affiliated with former President Roh.

Mr Ahn was a former trade and industry minister in the Roh administration after serving as president of state-controlled Posco.

Critics of Mr Kim have accused him of conducting a political vendetta by focusing corruption investigations on companies whose leaders were known to oppose his presidential candidacy in 1992.

Mr Kim of Daewoo and Mr Park Tae-joon, the former Posco chairman, supported an aborted effort to run a conservative candidate against the present president.

Mr Park later fled to Japan after he was investigated for allegedly using Posco funds to finance the failed presidential challenge.

Mr Chung Ju-yung, the former Hyundai chairman who stood against Mr Kim in the 1992 election, recently received a suspended jail sentence for illegal campaign finances, and his group has been subject to government-imposed financial restrictions.

Cautious applause for straits 'breakthrough'

Tony Walker and Laura Tyson on the talks between Beijing and Taipei

China's official media yesterday highlighted what was described as an "important breakthrough" in talks between Chinese and Taiwanese officials, but gave less weight to the story than newspapers in Taiwan.

People's Daily, the communist party newspaper, on page three of its international edition, reported that common ground had been achieved on "functional issues" such as the repatriation of hijackers, fishing disputes and the return of mainland Chinese working illegally in Taiwan.

The accord was hailed as a "major breakthrough" by negotiators, but fundamental conflicts over issues of sovereignty and legal jurisdiction were not

addressed. Observers in Taipei cautioned that while the outcome of the talks, the sixth round since groundbreaking meetings in April 1993, had smoothed cross-strait waters for the time being, underlying political tensions would be likely to escalate in the future.

Reports in the Chinese press were consistent in tone with the need for workmanlike discussions Beijing had emphasised in the lead-up to the talks between Mr Tang Shunbei, secretary-general of China's quasi-official Association for Relations Across the Taiwan Straits and his Taiwanese counterpart, Chiao Jen-ho of the Straits Exchange Foundation.

While Beijing is treating the

latest developments in a sober manner, there is no doubt it is taking seriously the process begun in Singapore in 1993 when the two sides agreed at a highly publicised meeting to explore ways to broaden contacts as part of a confidence building process.

Impetus has been given to the discussions by Beijing's growing concern, shared by the Taiwanese leadership, about a strengthening nationalist movement in Taiwan. China's leaders will not have overlooked opinion polls showing an increasing number of Taiwanese favouring independence.

China's avowed aim is to achieve reunification of Taiwan with the mainland, but

whereas in the past it had insisted there was plenty of time to achieve this, gains made in recent elections by opposition parties committed to independence have changed Beijing's approach.

Mr Tang gave voice to these concerns in comments after the two sides reached agreement on Sunday.

Describing cross-strait ties as "very complicated", he added: "Whomever tries to cut these ties and create hostile feelings is serving no-one's interests."

While it would be stretching a point to describe Mr Tang's visit to Taiwan as part of a "charm offensive", there is also no doubt that he was at pains to show a human face to the

Taiwanese to counter the independence tide.

Mr Tang may also have wished to make amends for China's mishandling of a boat tragedy in March in which 21 Taiwanese tourists were murdered while sightseeing on a lake near Hangzhou, south of Shanghai. Chinese officials at first disregarded the feelings of the relatives by blocking visits to the scene, fuelling suspicions of a cover-up.

Mr Ha Fo, a politics professor at National Taiwan University, said the talks "certainly helped restore a certain spirit of harmony, consensus and mutual trust" damaged by the incident. "But the basic problems which existed well before (the incident) remain. This will

make it extremely difficult to reach similar agreements on a political level.

Mr Shih Ming-tet, chairman of the opposition Democratic Progressive Party, denounced the talks, which he said Beijing had used merely to get the back on track.

Chinese media say they hope further high-level discussions can be held soon, including a report of the Singapore "summit". Beijing would like to force the pace on such issues as direct shipping and air links, but Taiwan remains nervous, fearing being drawn into a suffocating embrace.

Beijing, for its part, wishes to encourage trade and investment further. Taiwanese investment in the mainland exceeds US\$100bn and would receive a significant boost if barriers to direct contacts were removed.

US-North Korea talks resume

Chief US delegate Robert Gallucci and Mr Kan Sok-ju, his North Korean counterpart, resumed talks at the North Korean mission in Geneva yesterday on Pyongyang's controversial nuclear programme, Reuters reports.

After a weekend break during which both sides were to consult with their capitals, Mr Gallucci said it was too early to say whether there was any policy shift from the new leadership following the death four weeks ago of President Kim Il-sung.

The US and its allies in east Asia are trying to persuade North Korea, which they accuse of having a secret nuclear weapons programme, to open up its nuclear power facilities to full international inspection.

The most immediate issue in this round of talks is the fate of about 8,000 spent fuel rods taken from a reactor at Yongbyon in June.

The US which originally threatened United Nations sanctions over the fuel rods, has warned that they could soon corrode and pose a radiation risk.



Chief US delegate Robert Gallucci with Mr Kan Sok-ju, his North Korean counterpart, at the North Korean mission in Geneva

Japanese bank raises interest rate

By Emiko Terazono in Tokyo

The Industrial Bank of Japan, a leading Japanese long-term credit bank, raised its long-term prime rate - the rate charged on loans to first-tier clients - yesterday for the first time in five months in response to a rise in yields on the government bond market.

The bank's increase of its long-term prime rate, a benchmark for corporate lending rates, by 30 basis points to 4.7 per cent will be effective from tomorrow. Although corporate demand for funds have been low because of the prolonged recession, the rise in loan rates may squeeze demand even further.

Heightened expectations of an economic recovery and a fall in the yen against the dollar has weighed upon the government bond market, and long-term yields rose to a 14 month high of 4.53 per cent last Friday.

The rise has affected short-term rates, and could affect profitability at corporations and banks because of the rise in interest payments.

India's trade gap narrows

By Shiraz Sidhwa in New Delhi

India's exports grew 9.5 per cent to reach \$5.6bn (\$3.6bn) in the first three months of fiscal 1994-95, against \$5.1bn in the corresponding period last year, the commerce ministry reports.

Imports increased 7.5 per cent to \$5.8 bn in the same period, against \$5.4bn in April-June 1993.

The country's trade balance for the three-month period registered a decline at \$197.94m. Last year's trade deficit was \$301.45m, the ministry added.

Exports showed relatively low growth this year because of the erosion of India's competitive edge, reflecting a higher inflation rate than in the US, EU and Japan and growth in domestic demand.

Textile and leather exports, which account for nearly 30 per cent of total exports, have been adversely affected by sluggish international demand and competition from other suppliers, mostly in the Far East. The export of engineering goods, which accounts for nearly 10 per cent of the total, has slowed because of a fall in demand for primary and semi-finished iron and steel products.

The Financial Times plans to publish a Survey on Britain's Ethnic Businesses on Thursday, October 13.

The survey will report on the important contribution made to the economy by ethnic minority businesses in the United Kingdom. It will examine how their future prospects will be affected by competition at home and from abroad, and how they are responding to the challenge of economic revival in the UK.

For more information on editorial content and details of advertising opportunities available in this survey, please contact:

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FT Surveys

The Financial Times plans to publish a Survey on Reinsurance on Monday, September 5.

Produced at print centres in Tokyo, New York, Frankfurt, Reuters and London it will be read by senior business people and government officials in 150 countries worldwide. It will also be of particular interest to the 120,000 directors and managers in the UK who read the weekday FT.

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FT Surveys

Iran's MPs block cuts in food and drug subsidies

Iran's parliament yesterday ordered the government not to cut subsidies on food and medicine, weakening a key element of President Akbar Hashemi Rafsanjani's economic liberalisation programme, Reuters reports from Tehran.

The MPs, during a debate broadcast on state radio, agreed however with the government on the need for cuts in generous domestic energy subsidies, despite earlier this year having vetoed an increase in petrol prices.

As it opened its debate on a new five-year plan, already watered down in committee by members uneasy with Mr Rafsanjani's free-market reforms, parliament also ordered a 35 per cent cut in Iran's foreign debt by the end of the plan.

The government had proposed a 15 per cent cut in foreign borrowing during the five-year plan, which was originally due to come into force at the end of March, but has been delayed by parliament for one year to allow closer study.

The debt was put at \$30bn by Mr Ali Movahedi Savaji, a Tehran deputy, during the debate.

Mr Rafsanjani said in April that Iran's foreign debt was \$18bn, of which \$10bn had been refinanced in agreements with foreign creditors.

Speaker Ali Akbar Nateq-Nouri said special Majlis (parliament) committees had "hammered out and modified" government proposals for the five-year development plan, Iran's second since the 1979 Islamic revolution.

The full parliament approved the plan's broad objectives, of deregulation, currency and subsidy reforms that have stirred popular discontent.

"The government does not feel there are great differences (to the plan) after the approval of the (Majlis) special committee," said Mr Masoud Roshan-Zanjan, head of the budget and planning body and representing the government in the debate. "We were able to minimise our differences."

But the committees told the government not to make cuts during the plan in subsidies on medicine and certain foodstuffs - worth \$1.67bn a year compared to a total budget for 1994-95 of just under \$40bn.

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مكتبة الأمل

Oil companies tread warily in Nigerian strike

Paul Adams and Robert Corzine on how western majors are coping with the dispute

Western oil companies in Nigeria find themselves caught between a political hard place and a rock. As the industry enters the sixth week of a strike by oil workers, the companies are seeking a middle way between a military government determined to see off the opposition, and the workers who are demanding a handover to civilian rule.

If the oil companies maintain output they risk being accused of supporting an unelected regime and alienating their workforce. There is also a possible danger to the safety of their non-striking staff and equipment from the more extremist government opponents.

But if the companies, which account for more than 90 per cent of Nigeria's normal production of about 2m barrels a day cut output, they lose revenue and risk being accused by the Nigerian government of backing a politically motivated strike. Given the fact that oil accounts for over 90 per cent of

Nigeria's foreign earnings and over 80 per cent of government revenue, any overt sign of support for the strikers would be viewed harshly by the military. There is no sign of an end to the oil workers' stoppage, which has spread to other unions in protest at the arrest

barrels a day, according to industry sources. "We are trying to maintain as much as possible of the industry and prevent an escalation of danger in a very delicate situation," said Mr Brian Anderson, chairman of Shell's Nigerian affiliate, in Lagos yesterday.

"We have rejected the government's offer of military protection in order to maintain full production. I do not believe that protection is possible in some of our fields," which are spread across a vast area of the Niger delta. "There are too many small fields too exposed

staff, and some contract workers, to replace the skilled engineers of the senior staff association Pengassan on strike. Normal maintenance has been neglected, however, and development of new capacity is impossible. Recently threats against strike-breakers were followed

up by attacks. Two of the staff were beaten up for continuing to work and minor sabotage, carried out by strikers, halted some plants. Shell began to pull its staff out of the most dangerous fields and declared *force majeure*, enabling them to default on supply contracts.

Mr Anderson rejects charges that Shell is siding with the unions, with whom the company will always have to work, regardless of the tenure of the present regime. "We are certainly not taking sides with anyone, we are non-political," he said. "We would like to maintain full production and we want a resolution of this crisis. But I am not prepared to risk the lives of my staff or risk more serious sabotage and I do not want to inflame the situation."

He says Shell has to achieve "a fine balance". "We want to retain our assets, both staff and equipment, so that we can recover when this is resolved. We have old fields, with high water content, especially in the western region. You don't just

turn on the taps and it starts to flow." Other companies are also beginning to report supply disruptions, but on a lesser scale than that affecting Shell. Chevron, the third largest producer, is said to have lost about 15 per cent of its 350,000 b/d output and Mobil, the second largest has been even less affected.

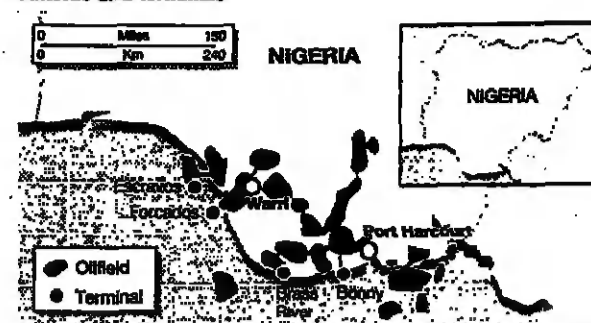
Both operate offshore or in onshore enclaves which are easier to protect and have fewer fields. Elf's offshore operation of about 60,000 bpd has been shut down but Elf continues to produce offshore.

In the longer term the strike will worsen a decline in investment which began almost a year. The government, which owns 58 per cent of the joint ventures with the multinationals has fallen further behind on paying its share of costs, with the backlog now estimated at \$200m. The 1994 budget for exploration and production has been cut from \$4bn to \$3bn, inadequate to maintain future capacity.

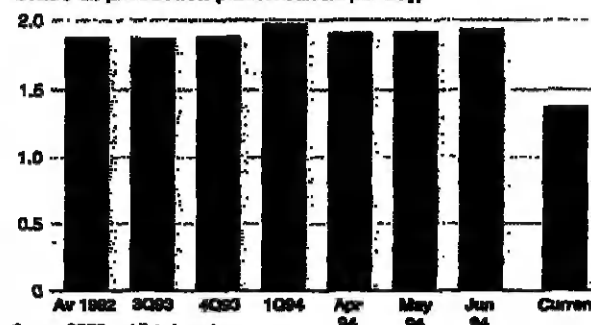
Rising costs are already cutting into the multinationals' fixed profit margin of \$1 a barrel. At \$19 a barrel this is about 5 per cent. But the government arrears have forced a halt on investment. The big multinationals can survive a temporary drop in revenue but political instability and state-led under-investment are dimming the one bright spot in Nigeria's economy over the past eight years.

Nigeria

Oilfields and terminals



Crude oil production (million barrels per day)



Source: OPEC and Petroleum Argus

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NEWS: THE AMERICAS

Federal budget will be 'swamped' by 2010 Senators warn on runaway spending

By George Graham in Washington

Some of Washington's wisest heads yesterday issued a solemn warning that runaway government spending was heading in a direction that will eventually swamp the federal budget.

Sounding the alarm over the expansion of government entitlements, such as Social Security and Medicare benefits for the elderly, a bipartisan commission chaired by Senator Robert Kerrey, of Nebraska, called for action to address the problem before it became overwhelming.

If trends continue unchecked, the commission said in a preliminary report, by the year 2010 the entire federal budget will be consumed by entitlements and by interest on the government debt.

"What we are saying is that if we continue the trend lines that we are going right now,

we are going to find the federal government essentially converted into an ATM machine," Mr Kerrey said.

The commission is due to present a more detailed final report in December - after the congressional elections - with its recommendations. Yesterday's interim report was intended to raise public awareness of the extent of the problem.

Although many voters favour cuts in government spending, they tend to believe that the budget deficit can be brought into line by eliminating waste, fraud and welfare payments to the unemployed.

Apart from interest on the national debt, which is expected to eat up 14 per cent of government spending next year, the largest programmes in the federal budget are Social Security and Medicare, hugely popular middle class benefits which together account for one third of all government spend-

ing.

While Social Security generates an annual surplus, most of its beneficiaries take out much more than they put in, and the ageing of the US population mean changes will be needed at some point.

Medicare, like other health spending, continues to climb much faster than the general rate of inflation, and hopes are now dwindling that a reform of the healthcare system would be able to bring it under control.

The commission was originally set up by President Bill Clinton to fulfil a promise made to Mr Kerrey in return for his vote for last year's budget. Since Mr Kerrey now says he will not vote for the healthcare reform bill at present under consideration, Mr Clinton has to promise to do something about the commission's proposals in order to win Mr Kerrey over once again.

Income tax next year for Cubans

By Carole James in Kingston

Cuba will impose taxes on property and income at the start of next year as part of a government effort to cut the budget deficit, ease pressure on the peso and shore up the troubled economy.

The taxes, the first of their kind since the revolution 35 years ago, will be levied first on the self-employed and on Cubans who earn from foreign sources. The legislation, passed at the weekend by the National Assembly, includes provisions for taxes on salaries workers when the economy improves.

The legislation also imposes taxes on a range of property and on some services. The rates will be announced in the next three months. Their imposition is the government's response to a widening budget deficit, which reached 4bn Cuban pesos (\$2.5bn at the official exchange rate) last year.

It also wants to mop up much of the 11.75bn pesos in circulation, which officials say has contributed to a deprecia-



Over 500,000 Cubans, rallying to honour a murdered policeman, protested against opposition groups in Havana at the weekend

tion of the currency on the unofficial market. The government announced a 50 per cent cut in the armed forces' budget this year, saying they should cost "as little as possible".

For two months Cubans have been paying more for a range of consumer goods and public transportation. Cigarette prices rose by an average of 600 per cent while alcohol prices were

doubled. The cost of air and sea travel was also increased. Last week police clashed with protesters in Havana's port area after what diplomats describe as a perceptible rise in

political tension in the capital. Fuel, food and medicines have been in short supply, power cuts are frequent and lines of ration card holders have been growing.

Farm chief faces gifts probe

By Nancy Dunne in Washington

Will a ride in a company jet and tickets to two sporting events bring down Mr Michael Espy, the US secretary of agriculture? Did he, as is alleged, take these gifts in exchange for easing up on proposed poultry regulation? These questions frame the latest mini-scandal in the pursuit of ethical purity in Washington.

Mr Espy has been the subject of a Federal Bureau of Investigation probe and Ms Janet Reno, the attorney general, is expected to ask a federal court to appoint an independent prosecutor to investigate the matter, yesterday's Washington Post reported.

Mr Espy is accused of having flown to Washington on a corporate aircraft from Arkansas, where he

had been making a speech. He is also accused of accepting tickets to a football game and a basketball game. The alleged donor is Tyson Foods, the largest poultry supplier in the US and an early supporter of President Bill Clinton.

One farm lobbyist who admires Mr Espy's work as secretary said the charges, despite the low value of the gifts, were "a serious matter" because food safety inspectors have for years been fired for having taken a turkey or ham for Christmas dinner.

"It is no bigger deal than all the money Clinton took from Tyson," said Mr Niel Ritchie, spokesman for the Institute for Agriculture and Trade Policy in Minnesota. "But any time anyone in Washington takes travel and favours from people they're supposed to be regulat-

ing, it diminishes confidence that they will be doing a fair job."

Although Mr Espy reimbursed Tyson for some of the expenses, according to his staff, and the gifts were minor, he is accused by some of delaying poultry regulation reform for a time.

The charges have been causing some consternation in the Washington farm lobby. "I think it is a witch-hunt that may have something to do with different perceptions of what is acceptable," said Miss Carol Brooks, a Washington agriculture consultant. "The real issue is, at what point do some of these ethics rules get to being ridiculous?" She said several farm lobbyists say an investigation now would be "regrettable" if it detracted from the focus needed on next year's re-authorisation of US farm programmes.



Reno may ask for prosecutor

Allowable asbestos levels cut

By Jeremy Kahn in Washington

The US government yesterday cut by half the level of asbestos permissible in the workplace. The ruling came in the announcement of a long-awaited set of regulations affecting 4m workers in the construction, car repair and shipbuilding industries.

The change, by the Occupational Safety and Health Administration of the US labour department, was prompted by a 1988 court ruling stemming from a 1986 union law suit which challenged the previous tolerance level as "dangerously lax", and one which exposed workers to unsafe amounts of the carcinogen.

"With these new rules, we now have in place a regulatory structure that will result in very significant

reductions in deaths due to cancer and in costs to society," said Mr Joseph Dear, assistant secretary of labour. The labour department estimates 42 cancer deaths a year will be prevented under the new standard.

The new level of permissible exposure will be 0.1 asbestos fibres per cubic centimetre of air over an eight-hour exposure period.

The new regulations will cost \$61m (\$250m) to implement. Mr Dear said, far less than the \$15m price-tag for the mandatory government inspections the labour department opted against.

The new rules do not require building owners to remove asbestos but instead focus on training maintenance and construction workers how to safely work around materials containing asbestos.

The rulings specifically address the situation where asbestos may have been used as a fire retardant insulation in ventilation systems in buildings constructed before 1980.

The new rules offer owners of such buildings a choice of either assuming their building contains asbestos and proceeding under the new training and safety guidelines, or paying to have their buildings inspected.

Along with the 3.2m construction and maintenance workers, there are new standards affecting 685,000 car mechanics, who work with clutch and brake systems containing asbestos, as well as 1,000 shipbuilders.

"We're confident that today's ruling will close the books on asbestos regulation," Mr Dear said.

Dismissals and new currency alter outlook for Brazil poll

Patrick McCurry on a fall in inflation and the dumping of running mates accused of fraud

The removal of two of Brazil's vice presidential candidates after fraud allegations is being seen as further evidence that things might slowly be changing in a country where holding public office has long been regarded as a means to personal wealth creation.

Last week Mr Fernando Henrique Cardoso, presidential candidate of the centrist Brazilian Social Democrats, took swift action to replace his running mate Mr Guilherme Palmeira of the conservative Liberal Front party. Mr Cardoso's main electoral ally, Mr Pal-

meira was accused of being linked with fraud involving public works contracts.

A week earlier Mr Luis Inacio Lula da Silva of the left-wing Workers' party dropped his deputy, Mr José Paulo Bisol of the Brazilian Socialist party, after allegations that Mr Bisol had submitted over-costed amendments to the budget for works that benefited property he owned.

Although both Mr Bisol and Mr Palmeira, who are both senators, deny any wrongdoing

the sackings were a response to the growing public demand for clean government. Mr Cardoso and Mr da Silva, who are trying in the opinion polls for the election in October, had little choice but to sacrifice their running-mates in the face of incessant, if often sensationalist, press investigations.

The coverage has been feeding, and feeding off, the public's demand for higher standards of public morals, which stems largely from the resignation of former President Fernando Collor in December 1992 amid corruption allegations, and from a huge congressional investigation into federal budget fraud that ended earlier this year with the expulsion or resignation of several leading politicians.

The public mood has reached the point where, according to a poll last month, Brazilians rate honesty as by far the most important personal quality for the next president. It was rated top with 36 per cent followed by character at 3 per cent and competence at 2 per cent.

This trend has damaged the campaign of Mr Orestes Quércia, the controversial candidate of the Democratic Movement party, Brazil's biggest. Mr Quércia has been stuck at 7 per cent in the polls, largely because of an indictment on fraud charges relating to his term of office as São Paulo state governor. Last Friday Brazil's appeals court quashed the case.

Since Mr da Silva, known as "Lula", the allegations levelled

at his running-mate have been a blow to the Workers' party's image of clean government. Mr da Silva's delay of nearly a month in sacking Mr Bisol virtually paralysed his campaign.

This coincided with the introduction by Mr Cardoso, when he was finance minister, of Brazil's new currency, the real, which has brought monthly inflation down from 50 per cent in June to 7 per cent last month and has helped Mr Cardoso draw level with Mr da Silva in the polls after

trailing by 15 to 20 points.

Mr da Silva's new running-mate, Mr Aloizio Mercadante, is an economist and is expected to spearhead the Workers' party's new approach to the anti-inflation plan. Given the widespread public approval for the plan, Mr da Silva is in a delicate position. If he criticises it he risks being labelled the "candidate of inflation" by Mr Cardoso, while if he supports it he is, in effect, endorsing a return to the bad old days of corruption.

his criticism and is now committed to retaining the new currency but also to increasing wages, which he says have been eroded under the plan.

Mr Cardoso's new running-mate, Mr Marco Maciel, is, like Mr Palmeira, a senator from the Liberal Front party and from the north east of Brazil, a region in which Mr Cardoso's party is weak. Mr da Silva is expected to try to exploit Mr Maciel's membership of military governments and the Collor administration by portraying Mr Cardoso's team as representing a return to the bad old days of corruption.

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INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicators are end-point values.

■ UNITED STATES						■ JAPAN						■ GERMANY					
	Real GDP	Industrial production	Unemployment rate	Money supply	Consumer prices		Real GDP	Industrial production	Unemployment rate	Money supply	Consumer prices		Real GDP	Industrial production	Unemployment rate	Money supply	Consumer prices
1985	100.0	100.0	7.1	100.0	102.4	100.0	100.0	2.8	100.0	87.0	100.0	100.0	7.1	100.0	100.0	100.0	100.0
1986	100.5	100.3	6.9	98.0	107.1	100.5	100.7	2.8	94.3	109.5	103.4	102.2	9.4	103.4	106.9	100.0	100.0
1987	100.4	100.0	6.1	105.5	105.2	113.8	103.1	2.8	108.3	115.2	117.1	109.2	6.2	148.4	108.8	100.0	100.0
1988	112.5	110.7	5.6	113.1	111.1	122.8	113.1	2.5	135.8	122.1	119.4	108.3	6.2	184.8	113.8	100.0	100.0
1989	115.6	112.4	5.2	99.3	110.8	132.5	118.1	2.3	147.0	124.9	114.1	111.4	5.6	214.9	115.6	100.0	100.0
1990	116.4	112.4	5.4	84.8	106.3	141.8	124.5	2.1	148.8	122.1	123.8	107.2	4.8	281.1	113.8	100.0	100.0
1991	116.4	110.3	6.6	82.0	111.0	144.8	128.6	2.1	144.2	110.8	130.5	120.8	4.2	270.7	113.8	100.0	100.0
1992	117.8	112.9	7.3	82.0	111.0	150.9	119.1	2.1	137.7	115.1	127.7	118.1	3.6	293.0	113.8	100.0	100.0
1993	123.8	117.8	6.7	65.3	121.1	132.0	113.8	2.5	106.5	125.7	122.8	110.8	5.8	195.5	113.8	100.0	100.0
3rd qtr 1993	5.9	4.2	6.4	69.0	118.0	-5.1	-4.8	2.5	101.7	125.0	-2.2	-8.4	5.9	194.9	111.9	119.1	119.1
4th qtr 1993	5.8	4.3	6.4	69.4	128.1	-5.7	-4.2	2.7	103.3	125.7	-5.8	-3.1	6.3	178.4	113.8	119.1	119.1
1st qtr 1994	7.2	5.0	6.5	71.7	134.1	-2.9	-3.1	2.8	101.7	133.7	0.2	0.0	5.8	198.2	113.8	119.1	119.1
2nd qtr 1994		5.5		74.7	151.8		-1.3										
July 1993	3.3	3.8	6.7	85.8	117.1	-5.8	-5.2	2.6	102.8	128.8	-3.3	-8.0	8.8	201.5	108.8	119.1	119.1
August	6.0	4.3	6.7	98.7	116.8	-4.1	-2.5	2.6	102.3	124.3	-1.0	-5.9	5.9	186.7	110.8	119.1	119.1
September	5.5	4.4	6.8	85.3	118.9	-3.5	-6.1	2.6	100.3	125.0	-1.8	-5.7	9.1	198.6	110.8	119.1	119.1
October	6.5	4.1	6.8	85.5	120.8	-5.0	-4.0	2.7	94.8	125.2	-0.8	-5.2	8.0	198.6	110.8	119.1	119.1
November	6.9	4.2	6.4	88.9	122.1	-7.3	-3.2	2.7	111.8	124.9	-8.1	-4.0	6.3	179.2	112.1	119.1	119.1
December	9.0	4.8	6.3	70.7	122.1	-4.6	-3.5	2.8	99.5	125.7	-6.5	-1.0	6.3	190.9	113.8	119.1	119.1
January 1994	6.4	4.8	6.8	82.0	125.5	-2.7	-2.7	2.8	101.7	125.7	0.5	-1.7	6.4	190.9	113.8	119.1	119.1
February	7.2	4.8	6.4	72.9	129.7	-3.7	-4.4	2.8	87.7	129.7	0.5	0.7	6.5	185.5	116.1	119.1	119.1
March	10.0	5.4	6.5	74.3	124.1	-3.2	-2.2	2.8	110.7	133.7	-0.2	1.0	6.5	186.5	116.1	119.1	119.1
April	5.1	7.0	6.1	73.5	123.8	-2.0	-2.0	2.5	99.5	134.2	-7.1	2.8	9.5	189.7	116.1	119.1	119.1
May	5.7	5.7	6.0	78.4	123.2		-1.8			135.2	2.5	2.5	9.3	186.1	116.1	119.1	119.1
June		5.8		74.1			-0.6						3.2				
■ FRANCE						■ ITALY						■ UNITED KINGDOM					
	Real GDP	Industrial production	Unemployment rate	Money supply	Consumer prices		Real GDP	Industrial production	Unemployment rate	Money supply	Consumer prices		Real GDP	Industrial production	Unemployment rate	Money supply	Consumer prices
1985	100.0	100.0	10.3	100.0	101.8	100.0	100.0	9.8	103.8	100.0	100.0	11.2	100.0	100.0	10.0	100.0	100.0
1986	102.4	101.1	10.4	107.2	108.1	108.8	104.1	10.4	110.5	105.3	102.4	11.2	116.1	101.1	10.0	100.0	100.0
1987	104.5	103.1	10.5	118.1	108.8	108.8	108.8	10.5	108.8	108.8	108.8	10.5	116.1	101.1	10.0	100.0	100.0
1988	107.9	107.3	10.0	134.9	113.8	107.9	114.2	10.0	117.5	117.5	117.5	11.8	116.1	108.8	10.0	100.0	100.0
1989	109.5	111.3	8.4	181.1	113.4	116.9	118.9	10.8	116.9	116.9	120.1	114.8	7.2	124.7	100.0	100.0	100.0
1990	110.3	112.8	10.8	85.4	114.8	115.0	115.0	10.8	111.5	111.5	121.1	113.7	8.8	98.1	100.0	100.0	100.0
1991	110.3	113.2	9.4	127.8	108.5	115.4	114.0	115.4	10.8	115.4	109.9	109.9	8.8	98.1	100.0	100.0	100.0
1992	110.5	113.2	10.1	111.8	107.9	116.9	115.4	9.8	111.0	110.0	120.5	108.7	10.0	70.1	11.1	100.0	100.0
1993	110.7	109.9	11.7	80.4	110.3	114.2	112.9	10.2	121.0	121.0	124.6	111.3	10.3	77.2	11.1	100.0	100.0
3rd qtr 1993	0.4	-2.9	11.9	85.4	108.4	-1.4	-0.8	10.3	118.3	3.8	2.4	10.4	77.4	11.1	100.0	100.0	100.0
4th qtr 1993	-0.7	-1.5	12.1	88.5	110.3	-0.9	-0.5	10.7	121.0	3.7	3.2	10.1	82.7	11.1	100.0	100.0	100.0
1st qtr 1994	1.4	0.2	12.3	93.5	113.4		1.0	10.8	122.3	3.5	4.1	9.9	84.0	11.1	100.0	100.0	100.0
2nd qtr 1994										4.0	5.7		86.7				
July 1993	1.2	-2.8	11.7	94.4	107.1	-6.4	-3.3	9.8	115.3	4.4	3.5	10.4	77.1	11.1	100.0	100.0	100.0
August	-1.2	-3.0	11.8	80.3	107.5	1.2	0.5	9.8	118.7	3.6	2.4	10.4	77.8	11.1	100.0	100.0	100.0
September	-1.2	-3.1	12.0	81.2	108.4	1.1	0.4	9.8	118.3	3.4	1.7	10.2	77.5	11.1	100.0	100.0	100.0
October	-2.0	-4.4	12.2	80.2	108.2	-1.4	-0.8	9.8	118.2	3.2	2.2	10.2	80.7	11.1	100.0	100.0	100.0
November	2.0	-0.1	12.4	88.3	110.2	-5.4	-1.8	9.8	120.2	3.8	3.7	10.0	83.5	11.1	100.0	100.0	100.0
December	-0.6	-0.0	12.4	88.4	110.2	-8.9	1.7	9.8	121.0	4.2	3.9	9.8	83.8	12.1	100.0	100.0	100.0
January 1994	0.7	1.2	12.6	88.1	111.4		2.8	9.8	121.5	3.9	4.4	10.0	83.9	12.1	100.0	100.0	100.0
February	1.4	-1.0	12.5	88.4	112.1		-0.6	9.8	122.3	4.2	5.0	9.9	84.0	12.1	100.0	100.0	100.0
March	2.0	0.5	12.6	103.8	113.4		0.5	9.8	122.6	3.7	4.1	9.7	84.0	12.1	100.0	100.0	100.0
April	-3.9	3.5	12.8	114.0	114.9		8.8	9.8	122.8	4.4	8.0	9.5	87.1	12.1	100.0	100.0	100.0
May	3.3	3.4	12.7	110.2	116.7		2.8	9.8	123.0	4.2	5.0	9.5	87.0	12.1	100.0	100.0	100.0
June 1994				109.7						3.3	8.2						

CBI says drop in output price inflation 'highlights competitive nature of economy'

Steady growth reinforces recovery

By Peter Norman,
Economics Editor

Subdued price rises at the factory gate and buoyant consumer borrowing figures provided fresh evidence yesterday that April's tax increases have so far not upset steady growth with low inflation in Britain.

The Central Statistical Office reported that the prices charged by UK manufacturers for their products rose by only 1.9 per cent in the year to July - the lowest increase since December 1986 - while net borrowing by consumers to cover current purchases of goods and services grew by a record \$688m in June.

The two sets of statistics reinforced the impression that the UK is enjoying

an unusually benign recovery from the recession of the early 1990s.

Among yesterday's good news, the CSO reported that the "core rate" of output price inflation, which excludes food, beverages, tobacco and petroleum, also increased by only 1.9 per cent in the year to July: its lowest rise for nearly 27 years.

But at the same time, it announced that prices for industry's raw materials and fuel rose by a seasonally adjusted 0.5 per cent between June and July after a sharp 1.3 per cent increase in June.

Treasury officials hailed the drop in annual output price inflation from 2.1 per cent in June as encouraging. The Confederation of British Industry said it highlighted the competitive nature of

the UK's post-recession economy. But some City economists warned that the Bank of England was still likely to push for an increase in bank base rates from 5.25 per cent in the months ahead.

"There are signs that gains in input prices and manufacturers' price expectations are starting to feed through [into output prices]," said Mr Michael Saunders, UK economist of Salomon Brothers International in London. "The drop in the year-on-year rate of output price inflation will not prevent a rate increase in the next few months, and probably in September," he added.

Economists at James Capel, the UK stock broker, said they thought base rates might rise in October.

Yet, although yesterday's credit fig-

ures showed the biggest monthly gain in net lending to consumers since data were first collected in the 1980s, there was little sign of concern in the Treasury that they might signal a re-igniting of inflation.

Officials pointed out that June's \$683m increase in net lending followed weak net lending of \$206m in May and the increase appeared to reflect a slowdown in credit card repayments rather than a surge in new commitments.

The CBI pointed out that the record increase in net lending coincided with heavy price discounting at the start of the summer sale. The figures, it said, showed that "consumers remain extremely value conscious and are willing to borrow to finance current spending when the price is right".

Britain in brief



Lloyd's case set to go to Lords

A group of 500 loss-making Lloyd's Names is to take its legal case to the House of Lords.

The Appeal Court ruled at the end of June that the Names, who are all members of the Outwaite syndicate 317/661, in the 1982 year of account, were too late to begin legal action to recover insurance losses, overturning a judgment made last year by the High Court.

The Names, individuals whose assets have traditionally supported the insurance market, allege breach of duty by their agents.

They did not participate in a successful earlier action by fellow Names on the syndicate which resulted in a £116m out-of-court settlement in February 1992.

Last year Mr Justice Saville ruled that the Names, whose solicitors are Norton Rose, could take action against RHM Outwaite (Underwriting Agencies), which managed syndicate 317/661, and approximately 80 members' agents.

Solicitors Denton Hall are acting for RHM Outwaite, while Oswald Hickson, Collier are acting for a number of the members' agents in the case.

Action against Astra advisers

The receivers to Astra, the munitions company connected to the Iraqi supergun affair, have started legal action against the auditors and merchant bankers which advised the company on one of the acquisitions that led to its downfall.

Mr Chris Hughes and Mr Chris Barlow, insolvency partners at Coopers & Lybrand, have issued writs in the last few days against Stoy Hayward, the accountancy firm, and Paine Webber, the US-based merchant bank.

The writ pursues the firms for breach of contract and/or negligence in respect of advice given to Astra before its acquisition of PRB, the Belgian munitions company, in 1989.

There is no sum specified in the writ, which is currently a holding action designed to beat the six-year statute of limitations after which it is impossible to bring a case.

However, the PRB acquisition cost Astra £22m, and the writ is likely to seek damages for at least this amount as well as costs and interest since that time.

Paine Webber was the merchant bank advising on the PRB acquisition, and Stoy - Astra's auditors - conducted due diligence. Astra proceeded with a rights issue in July 1989 and completed the acquisition in September.

Coopers & Lybrand said the writs would be served within the next four months.

Michael files Sony appeal

George Michael, the pop singer, yesterday filed an appeal against the High Court's refusal to set aside his recording contract with Sony, the Japanese entertainment company.

Mr Justice Jonathan Parker in June dismissed George Michael's claim that his contract was an unfair restraint of trade and contrary to the European Union's competition laws.

Mr Justice Parker said that Sony had behaved fairly towards the singer. He rejected George Michael's allegation that the company had tried to "kill" his last album as a punishment for his refusal to appear in a promotional video.

The singer said yesterday that he hoped the appeal would be heard "at an early date". Sony declined to comment.

Rail union may return to talks

The RMT transport union may soon return to the negotiating table through the conciliation service Acas in a further attempt to settle the nine-week-long rail signalling staff dispute.

But the union will first require a clear understanding that Railtrack, the state-owned company that runs the network, is willing at once to consolidate into basic rates a large part of a 6 per cent supplement it has already offered.

Acas officials said yesterday they were "actively in touch with both sides". But considerable confusion continued yesterday when little outward progress was made towards a resumption of negotiations.

The RMT and Railtrack have said they want to re-enter talks, but these have failed to materialise.

With the prospect of 72 hours of severe disruption starting on Friday with further strikes on the following Monday and Tuesday, there is little time left to reach a settlement.

The RMT says the main obstacle remains Railtrack's apparent unwillingness so far to state unequivocally in writing that it is prepared to allow a consolidation of part of the proposed 6 per cent supplement.

High interest in Shetlands

Growing oil company interest in the relatively unexplored area west of Shetlands was confirmed yesterday when the government announced that blocks in the region had attracted the largest number of nominations in the latest offshore licensing round.

Mr Charles Wardle, parliamentary undersecretary of State for Industry and Energy, said other relatively unexplored areas in the Irish Sea and Cardigan Bay also "... attracted high numbers of nominations." Many of the west coast blocks are in environmentally sensitive areas.

He said a total of 329 blocks had been nominated by 29 companies. Nomination, however, does not mean that the government will open a particular block to exploration.

After studying the nominations the government plans to offer 150 blocks.

RAF contract for Smiths

Smiths Industries yesterday won a contract, believed to be worth about £15m, to upgrade RAF Harrier transport aircraft with a new navigation system.

Textiles job loss fears over Hualon

By James Blitz

A group of senior British industrialists is to step up its attack on the government's backing for the Hualon project in Northern Ireland, amid fears that it will lead to substantial job losses in textile factories elsewhere in the UK.

In the latest indication of the concern which the project has aroused in the British textile industry, a delegation of business leaders has said that it will meet Sir Patrick Mayhew, the Northern Ireland Secretary, on Thursday.

The delegation, which will be led by Mr Nicholas Winter, the Tory MP and chairman of the Manufacturing and Construction Industries Alliance, will tell Sir Patrick to suspend backing for the £157m Hualon project until the government has canvassed views of other business leaders.

It will also demand that the government should consult British industry about the economic consequences of all future inward investment decisions before they are taken.

"We want to ensure that what has happened over Hualon will never happen again," said Mr Christopher Whitehouse, the chief executive of the Alliance. "Ministers and Civil Servants should not feel they have a right to put people out of a job just for political considerations."

The plant - to be built by a Malaysian division of Hualon, a Taiwanese conglomerate - will represent the largest industrial investment in Northern Ireland since the failure of the De Lorean car venture in the 1970s.

The project is expected to create about 1,000 jobs over the next ten years. But leading figures in the British textile industry believe it could lead to the closure of factories elsewhere in the UK amid signs of over-capacity in the European market.

Mr Whitehouse said yesterday that he was concerned about the way in which the government takes decisions on inward investment in general.

His organisation is inviting British companies to inform them of occasions on which British government decisions have adversely affected their industry.

Navy to protect Cornish fishermen

By Allison Maitland
and Ivor Owen

Two Royal Navy ships will be in place in the Bay of Biscay later today to protect a small group of Cornish fishing vessels from further attacks by Spanish fishermen angry at their use of driftnets to catch tuna.

"We will stand by our industry," said Mr William Waldegrave, agriculture and fisheries minister, yesterday. Announcing the despatch of the second fishery protection vessel, HMS Alderney, which is due to arrive in the area this afternoon, he said: "It is unacceptable that UK flagged vessels should be prevented from legitimate fishing as a result of harassment or damage by other vessels. We will see that they are not."

The two vessels will protect a maximum of a dozen Cornish boats that use driftnets for tuna fishing in the Bay of Biscay - with no more than six usually present at any one time. Last week Spanish fishermen, who use baited lines to catch tuna and object to the high-technology driftnets, cut the nets of two Cornish boats and forced others home.

Mr Waldegrave rejected calls for a Royal Navy frigate to be sent to the area, saying the two fisheries vessels would provide adequate protection.

At the same time, he strongly defended the action



Barrie Ball (left), Charisma's skipper, and his father Barrie, the owner, yesterday. David Brinchley

taken by the Navy to check a complaint by an EU fisheries inspector that the Charisma, a Padstow-based trawler, had used illegal nets.

The Charisma was found to have a net 158 metres longer than the 251m permitted by the EU. This is just over the 5

per cent allowed for natural stretching of the nets and a ministry spokesman said charges against the skipper had not been ruled out.

Mr Waldegrave said it was right that what looked like a prima facie case should have been investigated. "We have

shown that we enforce the rules properly." Mr Mike Townsend, chief executive of the Cornish Fish Producers' Association, said his group would maintain regular contact with the Navy on the movements of the Cornish boats in the Bay of Biscay.

New graduate pay shows smallest rise since 1981

By John Authers

The average salary being offered to new UK university graduates rose by only 1.1 per cent this year, the smallest increase since records began in 1981, according to a report published today.

The finding, by the Higher Education Careers Services Unit, which represents university vice-chancellors and principals, indicates the mean starting salary in February this year, was £12,647, up from £12,506 a year earlier.

This rise, calculated from 906 vacancies advertised to university career services, was lower than increases in both the retail prices index (2.4 per cent) and average earnings (3.5 per cent) over the same period. Between 1981 and 1990, average starting salaries for graduates

of all disciplines had increased above the rate of inflation.

But strong candidates are still able to command inflation-beating salaries. The Association of Graduate Recruiters, which represents the 300 largest university recruiters, said its members had raised starting salaries by an average of 3.8 per cent.

Mr Roly Cockman, the association's secretary, said yesterday: "Even in today's market, high fliers have the luxury of choice. Big companies will pay £17,000 or £18,000 for a new graduate they really want."

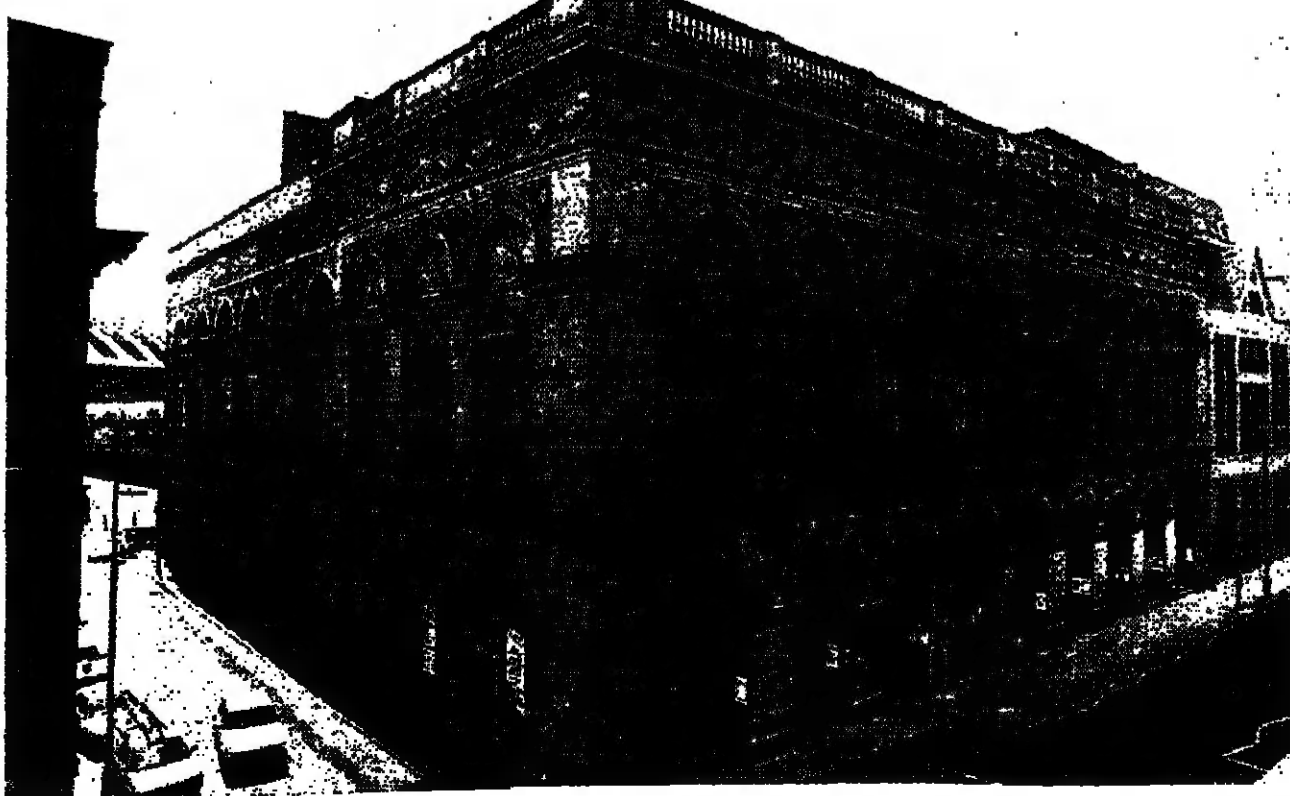
The outlook is more bleak, however, for the majority of graduates. Today's report says: "Since September, salary levels have been relatively stagnant as employers have cautiously resumed recruitment following the recession and have taken

advantage of the large pool of graduates seeking jobs to keep wage bills low."

Mr Colin Lawton, the unit's statistical assistant, said: "It's a self-feeding process. A lot of companies are alerted when they find graduates knocking on their doors or writing speculative letters."

An increase in the influence of smaller employers was the main factor depressing salaries.

The total number of advertised vacancies for graduates rose by 5 per cent on last year, while the average number of vacancies offered by each company fell, reflecting increased recruitment by smaller companies. Many were recruiting graduates to jobs which might previously have been filled by school leavers, Mr Lawton said.



Manchester's Free Trade Hall (above), originally the headquarters of the Anti-Corn Law League and currently the home of the Halle Orchestra is set to become a luxury hotel. Chris Tighe writes.

The city council, which owns the historic listed building, said yesterday it would be turned by a £30m development into a 290 bedroom hotel with a 4/5 star rating. The proposed scheme would retain the

Italian-style, stone building's famous facade, and incorporate the statues on the back elevation. Construction is expected to start early in 1996 when the Halle moves to a new home in the nearby £42m International Concert Hall.

The Free Trade Hall, built in 1856 on the site of the Peterloo Massacre, has always, says the city council, been a symbol of Manchester's drive for enterprise and social reform and has played a major

role in the city's cultural, social and political life. Manchester council said it has agreed heads of terms with development company La Sande North West Ltd. La Sande is at an advanced stage of discussions with Scotts Hotels Management Ltd, UK subsidiary of Scotts Hospitality, the major franchise holder of the Marriott hotel brand in the UK.

US-based Marriotts would run the hotel as part of its UK expansion programme.

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MANAGEMENT: THE GROWING BUSINESS

When Ian Dyson wanted to start a Sheffield bus company in 1990, he was faced with a problem. He and his three partners, all former senior depot managers for the nationalised bus company, had little money and less collateral. To achieve critical mass they needed at least 15 double-decker buses.

The solution was to buy 12-year-old vehicles - but who would finance such aged assets? After exploring a number of cut-deals, including bank loans, Dyson found Close Asset Finance, a specialist leasing company.

Whereas banks were not interested in his collateral, Close Asset Finance took a view on the residual value of the assets in the event of default, entered a hire-purchase arrangement and Sheffield Omnibus was born. Four years later, the company has 86 buses, employs 220 people full-time and is still using leasing for its asset financing.

"We would not have had a business without hire purchase when we started," says Dyson. "As a new company we were aware we would not get the best deal but as they [Close] have got to know us the deals have got better."

This form of asset-based financing has had some heavy-weight support in the past few months. Recognising that UK companies are too dependent on overdraft, the governor of the Bank of England and the chancellor of the exchequer have suggested that they consider other sources. Factoring was one option for financing working capital; leasing another route for financing the assets.

During 1993, some £13.5bn was

New lease on life

Richard Gourlay looks at the growing popularity of asset-based financing

provided by members of the Finance and Leasing Association, a significant proportion to smaller companies. While this is an impressive figure, there would appear to be scope for significantly more.

According to Michael Maberly, managing director of Lombard Business Finance, part of Lombard, the UK's largest financing group, British industry has yet to translate its short-term optimism into higher levels of investment.

Those businesses that are investing, however, are changing the way they like deals to be financed. Driven by lower interest rates, more companies are opting for hire purchase - which allows them to take control of the asset - rather than the straight finance lease.

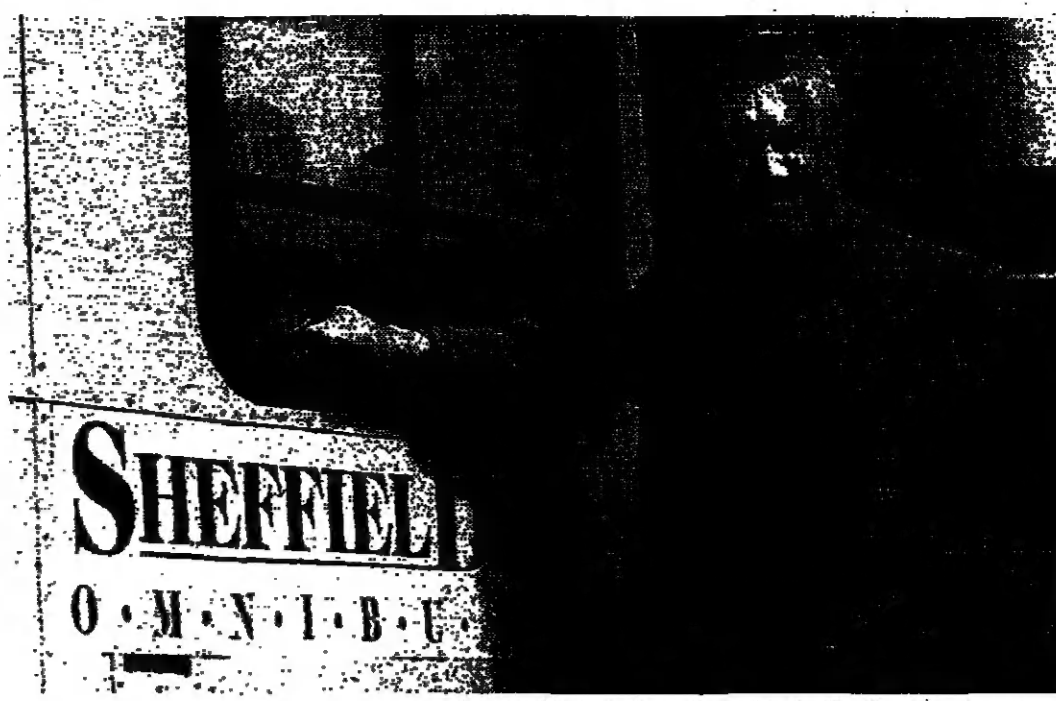
Companies such as VIP Colour Ltd, a management buy-out from East Midlands Electricity early this year, are discovering that hire purchase is barely more expensive than finance leasing where the asset reverts to the lessor company at the

end of the lease. As a result, hire purchase contracts grew by 86 per cent to £5.06bn in the year to June 1994 while leasing grew by only one per cent to £5.22bn, according to the association.

Some parts of the industry also hope to offer more operating leases. These allow the lessor to factor in the residual value of the assets which it will reclaim at the end of the contract so it can offer the lessee lower rental payments.

Leasing companies are developing reputations for financing certain classes of assets. Close Asset Finance has ties with Heidelberg, the German printing equipment manufacturer, and is known for its familiarity with the second-hand printing machinery market.

Lombard Business Finance, on the other hand, has chosen to enter a joint venture with GATX, the San Francisco-based leasing company. The US group will bring expertise in assessing asset values and, in some cases, will provide Lombard



Ian Dyson, who turned to a financing company: "I would never dream of going to the bank and asking them to lend me money"

with guarantees of residual values on assets it might otherwise feel unable to finance.

"If you are going to run operating leases you have to understand what you do when you get the assets back and what aftermarkets there are," says Maberly.

Certain assets are likely to remain off-limits even to specialised financing companies. The residual value of hi-tech investments such as computers is probably something only the manufacturer will be fully equipped to assess. Such deals will

remain the preserve of financing companies that support equipment suppliers.

A decision by finance houses to specialise more, and therefore better understand after-markets for second-hand assets, should open up a new source of finance for companies, particularly start-ups. Businessmen who have used financing companies also suggest it is a more flexible option than a bank loan.

Take Sheffield Omnibus which is again expanding its bus fleet. "I would not dream of going to the

bank and asking them to lend me money," says Dyson.

In five years, he says, his finance house will allow him to trade in his old buses and lease new vehicles on the same day so his service will barely be disrupted. A bank, on the other hand, would demand that he repay the loan before granting a new one to replace the buses, he says. "That is where the finance houses are head and shoulders above the banks. But the bank will lend me money for the depot - it's horses for courses."

Buy-outs take a tumble

Management buy-out activity was considerably more robust last year in continental Europe than it was in the UK, according to a review published today.

While the total number of deals - including those below £100m (£7.87m) - fell marginally to 874 deals in 1993, the value increased by 5 per cent to £3.1bn, according to the report produced by Initiative Europe and the Centre for Management Buy-out Research at Nottingham University.

By comparison, the volume of UK deals fell from 505 to 477 deals and the value fell by 14 per cent to £2.55bn. France, the most mature continental market, saw the sharpest decline, with deal volume and value down from 1990 peaks as the largest deals dried up.

But Initiative Europe says that the country's tax laws which make it punitive for family controlled companies to be passed from one generation to another - the issue of *transmission d'entreprises* - should provide a steady flow of opportunities for management buy-outs and buy-ins.

Overall in continental Europe, the recession has not led corporations in financial difficulty to shed non-core assets to repay borrowings at the speed seen by their UK counterparts.

But the recession has led to fewer small deals being financed and investment houses concentrating on doing fewer larger deals. This helped buy-out activity to remain roughly constant despite the deterioration in the economies of continental Europe.

While buy-outs were flat, the volume of management buy-ins increased by 60 per cent in the first half of 1994. The review finds that the technique is particularly appropriate where incumbent management of a family-owned company is not capable of leading a buy-out.

RG

*Europe Buy-out Review. Available from Initiative Europe - Tel 071 735 9888. Price £255

Regulators are sharpening their teeth for an altogether more aggressive approach towards the conduct of those in charge of insolvent companies.

The Department of Trade and Industry plans to increase considerably the number of directors of failed companies that it seeks to have disqualified.

It is also acting to ensure that insolvency practitioners in the private sector take a tougher line in providing the information to bring disqualification proceedings.

The changes follow a critical report last year from the National Audit Office, the Whitehall watchdog, suggesting that too few directors were disqualified as a proportion of companies that collapsed.

The NAO suggested that the DTT's Insolvency Service was acting against only about half the directors identified by practitioners or its own staff as candidates for disqualification.

For two consecutive years, the service has been given extra

resources for disqualification work. It is also clearing a backlog of outstanding cases.

In the 12 months to the end of March, while there were more than 20,000 company insolvencies, only 464 cases were brought for disqualification, as well as 257 prosecution reports on companies and 382 on personal bankruptcies.

In stark contrast, in a parliamentary answer in June, Neil Hamilton, minister for corporate affairs, said there were likely to be 750 to 800 disqualification petitions this year. There will also be what the service calls a "significant" increase in prosecutions.

Even this level will be below the rule of thumb used by many insolvency practitioners, who estimate that about 10 per cent of the directors of failed companies

deserve to be disqualified.

Ian Bond, an insolvency partner with Coopers & Lybrand, says that difficulties in identifying miscreant directors are compounded by how hard it can be to make a case in court.

"One of the problems is that

working. They comment and tick a box if they believe disqualification should take place. The Insolvency Service is putting pressure on practitioners to ensure that they provide sufficient information to make the basis of the case to prosecute a director.

Insolvency practitioners estimate that about 10 per cent of the directors of failed companies deserve to be disqualified

there hasn't been enough publicity to get directors really frightened," he says.

Insolvency practitioners must fill out "D-forms" or conduct reports on all directors connected to the companies on which they are

Practitioners make their recommendations for disqualification based on guidelines from the Insolvency Service which directors would do well to heed. Those deemed important in judging whether a

director is not "fit and proper" to run another company include:

- Misfeasance or breach of duty.
- The Insolvency Service is putting pressure on practitioners to ensure that they provide sufficient information to make the basis of the case to prosecute a director.

- Failure to comply with the Companies Act requirements to keep and preserve accounting records and information such as statutory registers and returns.
- Misappropriation or retention of company monies or property.
- Transactions defrauding creditors.

When the company has become insolvent, factors for practitioners to consider include:

- Causes of failure and

insolvency.

- Trading without regard to the interests of creditors.
- Trading without reasonable prospect of payment of creditors' claims.
- Use of "phoenix" companies where assets, customers or trading style may resemble closely those in a previous company.
- Taking payments or deposits if the directors know the company is insolvent.
- Undervaluing transactions, preferences and dispositions of property.
- Duty of the directors to assist the insolvency practitioners in their work.

The insolvency practitioner will also consider the sums at stake and the degree of public interest in disqualification.

If the rules are introduced and the Insolvency Service prosecutes, directors who have not paid heed may find themselves in prison, or banned from taking on new directorships for as many years as the courts decide.

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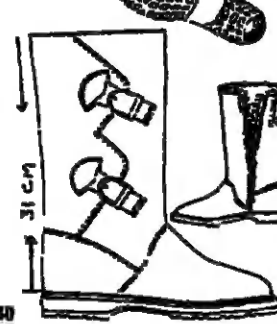
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INTERNATIONAL AIDS CONFERENCE

Explosive growth in infection stalks Asia

Paul Abrahams highlights the most recent findings



Aids

The terrifying epidemiological context of the 10th International Conference on Aids, which yesterday had its first full day, was set out by Michael Merson, executive director of the World Health Organisation's global programme on Aids.

In spite of the efforts of governments and agencies, 3m people worldwide were infected with HIV during the last 12 months, said Merson. By conservative estimates that makes 17m people.

Nearly 60 per cent of all infections - more than 10m - were in sub-Saharan Africa, he said. In the Masaka district of Uganda, Aids accounts for nearly half of all deaths. In young adults under 35, only one death in 10 is not HIV-related.

In Asia the rate of growth of HIV prevalence was alarming, Merson said. Since the Aids conference in Berlin last year, more than 1m people have been infected by HIV in south and south-east Asia alone.

In Thailand, infections had increased tenfold since 1990. About 4 per cent of all military recruits in that country are infected and 1.5 per cent of women attending ante-natal clinics. In Chiang Rai, northern Thailand, 20 per cent of young men and 8 per cent of women are infected.

As for the disease rather than infection, 1m cases had been reported in 190 countries. Merson said that was an underestimate. He estimated that about 4m had developed the disease by June this year - an increase of 60 per cent on the same period last year. He warned that the World Health Organisation expected the cumulative total to reach 10m people by the end of the decade.

Merson warned that governments should not use costs as an excuse for inaction. "Implementing basic prevention programmes in Asia would cost between \$750m (\$84m) and \$1.5bn

and could prevent 5m infections by 2000.

"The economic benefit that could result from prevention on such a scale is difficult to estimate, but it is massive in comparison with the investment needed. For Thailand alone the cost of Aids and HIV will be \$1.1bn," said Merson.

Public health campaigns have had an effect. In Thailand such programmes were achieving impressive results. A sharp rise in the use of condoms had led to a 77 per cent fall in reports of sexually transmitted disease between 1986 and 1993. Efforts in Harare, Zimbabwe's capital, had led to a 63 per cent fall between 1990 and 1993.

With the Aids epidemic gathering pace - 10 years after the discovery of HIV and its role in Aids - there was a rising pessimism among scientists about how to defeat the virus, said Bob Gallo of the US National Cancer Institute.

Present therapies are clearly inadequate. The difficulties of treating HIV with anti-retrovirals, the only drugs licensed for HIV, such as Wellcome's AZT and Bristol-Myers Squibb's ddI, were outlined by Stefano Vella of the Instituto Superiore Di Sanità in Italy.

Vella explained the advantages of treating HIV-positive individuals before they developed Aids symptoms. Although most infected individuals show no symptoms, the latent disease nevertheless continues to destroy the lymph system.

The problem, Vella explained, was that the Anglo-French Concorde study and more recently the ACTG 019 trial showed that the long-term benefit of using anti-retrovirals such as AZT was at best transient.

The pessimism surrounding AZT was similar to that which surrounded streptomycin, a tuberculosis drug, in the early

1950s. One medical journal argued that the drug was ineffective; in fact it worked but needed to be used in combination with others.

"We are now turning to combination therapy for HIV and Aids. That is the obvious future for treatment. It's obvious today; it wasn't a few years ago," Vella said.

Preliminary results from a study, called ACTG 223, showed that AZT when used with Roche's ddC and another Roche drug, Zalcitabine, was more effective than therapies using one or two drugs.

Such triple therapy should be given early, and preferably to patients who had not had AZT before and so had not built up resistance to the drug, said Vella. When patients had had no previous therapy, the amount of virus in the blood fell to zero, and the patient's CD4 count - a measure of the performance of the immune system - rose.

Most importantly, by combining the drugs there appeared to be a delay in the ability of the virus to build up resistance to AZT and Zalcitabine. Vella stressed the data was preliminary, but encouraging.

These theories and possible treatments remain far beyond the financial means of the vast majority of HIV-positive individuals.

An example of the plight of such people was given by Mohamed Hasan, chairman of the Arab International Centre for Fighting Aids in Cairo.

His paper *Sexual behaviour of inhabitants of cemeteries in Cairo* was a model of its kind. He interviewed 930 adolescents and young adults living in the small cemetery courtyards of Cairo. Hasan found 43 per cent of girls were sexually active by the age of 14. About 5 per cent were HIV-positive. For them any progress in high-tech retrovirals announced this week will simply be academic.

Ever since Henry Ford devised a system to mass produce cars, manufacturers worldwide have struggled with the problem of how to make the grind of the factory-line both efficient and worker-friendly.

Toyota, the world's second largest car maker, believes it has found something close to the ideal in a system it has devised which aims to combine the optimum level of human labour and automation.

First crystallised at Toyota's factory in Kyushu, which began operating last year, the company's latest thinking on the production process also formed the basis for a recent revamping of the Motomachi factory where it manufactures its popular recreational vehicle, RAV4.

The philosophy behind the production process adopted at Kyushu and Motomachi stems from the conviction that human labour is best suited to fulfilling the demanding task of assembly, the last stage of the manufacturing process where the manufacturer has its closest contact with the customer.

"In manufacturing, there needs to be a kind of communication between the maker of the product and those who use it," explains Mikio Kitano, a Toyota director in charge of production engineering. This communication is important for car makers to ascertain whether their cars are made to meet the needs of their customers, Kitano believes. Hence the importance of having workers, who can represent customers, in control of the assembly process. Only human employees can really tell if a door fits perfectly or if the steering wheel feels right, Kitano says.

At Motomachi, although assembly is the most labour-intensive part of the production process, there are no large, sophisticated robots visible in the assembly area. Instead, workers appear to be doing most of the work with the help of simple machines.

"It is to leave everything up to automation and not be fully involved in the work," notes Kitano. "People have to be the centre of the work."

At Motomachi, the assembly line where the car's wiring is installed employs about 20 people, each with his assigned tasks, involving very little automation.

This apparently greater reliance on human labour, however, does not mean that machines are shunned altogether. Automation is used as liberally at Motomachi as at Toyota's most highly automated factory in Tahara, in central Japan.

The 30 processes that are automated at Tahara are also mostly automated at Motomachi, Kitano points out. "Overall, the level of automation is about the same, but the kind of automation that is used is different."

Instead of the vast, supposedly



A conveyor belt carries workers along the line with the car, instead of trotting to keep with the car as it moves along the line

Helping to ease the daily grind

Toyota is using automation to aid its workers, rather than replace them, writes Michio Nakamoto

Intelligent robots found in highly automated factories, the machines used at Motomachi are designed to perform specific and relatively limited functions to help the workers.

"My belief is that where people find it uncomfortable to do the work, it should be left up to machines," Kitano says. "The main purpose of automation is to relieve the burden on the workers."

In a further attempt to make assembly work more satisfying, Toyota has divided the work into groups, with a team in charge of each group of tasks. At Motomachi, assembly does not take place on a long assembly line from start to finish, with each worker doing several, unrelated tasks. Instead, the process has been divided into five lines according to different functions or sections of the car. The intention is to give workers a stronger feeling that they have made an important contribution to the manufacturing of the car.

A conveyor belt now carries the workers along the line with the car they are working on, instead of trotting to keep up with the car as it moves down the line.

This latest approach to the manufacturing process that Toyota has

adopted is in striking contrast to the dominant thinking of a few years ago that propelled many car makers into sophisticated and costly automation.

Toyota was not an exception to the trend. In 1991, it, too, built a highly automated factory in Tahara at great cost and installed robots and sophisticated machines.

However, it soon discovered that placing too much importance on machines was a mistake. Not only did the need for specialists to run and maintain the high-tech machines mean that automation did not achieve its main goal of cutting labour costs, but those workers who had always worked at the factory felt intimidated by sophisticated machines they could not operate.

Automation also led to many mechanical problems as "machines break down easily," Kitano says. By restricting machines to those that make work easier for the workers, Toyota was also able to revamp Motomachi at considerably less cost than at Tahara. Automation at Motomachi cost the company a third of what it cost at Tahara, Kitano notes.

Another simple idea has enabled Toyota to realise the same effect as a highly automated line at a fraction of the cost. At Tahara, the line raise and lower the cars at different stages of the manufacturing process, so that the workers no longer have to bend or stretch.

Introducing that system whole-sale into Motomachi would have been expensive. But rather than give up the idea, Toyota raised the floors with planks to elevate workers at certain points and trenches were built to lower them at others.

"Personnel costs are not that different at the three plants, so the difference in the costs of the machines is the difference in the overall costs," Kitano explains.

So far, Motomachi has been a great success, Kitano believes. A doubling of production from an initial 2,000 a month to more than 4,000, due to the popularity of the RAV4, has been achieved smoothly. The number of workers overall has increased as a result of the production increase, but the number of workers per car has not. "Although such an increase usually results in workers demanding more automation, my workers are not complaining," Kitano says cheerfully.

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PEOPLE

Strategic move for London Stock Exchange



The London Stock Exchange, once the English gentleman's bastion, has appointed an American woman, Fields Wicker-Miurin, 36, to the newly created post of director of strategy and finance.

The Exchange is facing increasing competition both at home - from alternative trading systems - and abroad - from other exchanges which are increasingly challenging London's role as the centre of cross-border share-trading. Mike Lawrence, the chief executive, created the position as part of a wide-ranging shake-up at the Exchange and the executive has spent six months seeking a suitable candidate.

"The main challenge is to

make sure we can maintain our leading position in European and global securities markets," Wicker-Miurin says, describing her new job.

For Lawrence, described by the City's old guard as "not one of us," the appointment may be a bit of a gamble, although Wicker-Miurin's credentials are impeccable.

A native of North Carolina with an MA in international economics and European studies from Johns Hopkins University, Wicker-Miurin also studied at the Institute d'Etudes Politiques in Paris. She has lived and worked in Europe since February 1987, when she was sent to Luxembourg by Core States Financial, then known as Philadel-

phia National Bank, to establish a European operation.

Core States, a large regional US bank, then had the same aspirations of many large American commercial banks to use their correspondent banking relationships to build a distribution base for commercial paper and other types of securities. Core States, like many of its competitors, found the strategy simply wrong and the bank withdrew.

But Wicker-Miurin stayed, and signed on as a strategy consultant with Strategic Planning Consultants, now part of Mercer Management Consultants where her clients were leading UK and international investment banks and insurance companies.

Board shuffles at Flagstone

Kevin Leech has been appointed chairman of Flagstone Holdings, the USM-traded leisure company, which last week reported a big drop in 1993/94 losses. Leech has exercised his option to purchase 20 per cent of the company from David Kirch for £2.2m, equivalent to 1.5p per share. Flagstone shares closed 4p higher at 2p yesterday.

Kirch's interests on the board are represented by Kenneth Ineson, who is away from the UK. Kirch has undertaken to procure Ineson's resignation on his return.

Under the board reorganisation, Stuart Sim, group finance

director of M.L. Laboratories who was yesterday also appointed deputy chief executive, has been appointed a non-executive director; John Harding and Andrew Duquemin have resigned.

Sim says Leech would be reviewing the company strategy and taking a "hands on" approach to the growth of the business which, he says, has just returned to a "modest level of profitability".

Roger Garner has been appointed director of telecommunications at BRITISH GAS Transco; he moves from Galileo.

Nick Smith has been appointed md of Sekonda, and Julian Pollock md of the Apollo Group (retail sales

division), both TIME PRODUCTS subsidiaries.

Ken Mullen, formerly company secretary at Whesoe, has been appointed group company secretary and legal counsel at FARNELL ELECTRONICS.

Philip Green, formerly company secretary at British Aerospace Space Systems, has been appointed group company secretary at MEGGITT on the retirement of Malcolm Shaw.

Andrew Purvis has been promoted to sales director at NT Security, part of NEWMAN TONKS.

Caroline Cousins, corporate affairs executive at P&O and a former director of Earls Court Olympia's event organising company, at EARLS COURT OLYMPIA.

Philip Wroughton: hotly tipped

Old Etonian Philip Wroughton, a former High Sheriff of Berkshire, is having a rather good August. Last week he was elected vice chairman of Marsh & McLennan Companies, the biggest and most respected of the world's insurance brokers, and a day later his new racehorse, Landlord, won its first race at London's Kempton Park.

It may be the last race that Wroughton watches for some time. As chairman of C.T. Bowring and a member of the Council of Lloyd's, he will be required to divide most of his time between New York and London in his new job as de facto number two to Ian Smith, 60, who took over as Marsh &

McLennan's chairman just over two years ago.

Wroughton, 61, who joined Bowring in 1961, has stepped down as chairman of Marsh & McLennan Inc. parent of the group's worldwide insurance broking operations, and will be responsible for developing opportunities in insurance and reinsurance broking businesses.

He will work closely with the heads of Marsh & McLennan Inc, Guy Carpenter, Seabury & Smith and Frizell Financial Services.

Although there is a reasonably strict separation between insurance and reinsurance operations in the US, it is not as delineated in other markets

around the world. There are "significant opportunities for working more closely together", says Wroughton, who will be Smith's senior adviser on insurance matters.

Wroughton's promotion helps fill a gap which has existed since earlier this year when Robert Clements, 61, stepped down as the group's president in order to concentrate on running Marsh & McLennan Risk Capital Corporation which was set up in 1992 to help alleviate shortages in insurance underwriting capacity.

Clements had been vice chairman for a brief period before becoming president in 1992.

مكتبة الامم المتحدة

ARTS

Agongo: an opera in the making

Jane Mulvagh reports on Damien Hirst's first venture into this medium

L rats suspended in a cage, a snake and an indefinable embryo - Damien Hirst, the enfant terrible of contemporary British sculpture, is at it again. This time, however, his chosen medium is opera. Firefly Productions, a young multi-media creative team, presents the overture and finale of *Agongo* at the Edinburgh Festival on Sunday alongside Hirst's installation for the piece.

The opera preview, at the Deutscher European Arts Foundation, is part of Firefly's drive to raise £300,000 to complete the production. Its full-length debut is to be held at the Union Chapel, Islington, in May 1992, and there are plans to take it to Berlin, New York, Vienna and Sydney.

Firefly Productions is the brain-child of young art student Daniel Moynihan, who has commissioned Hirst from across the range of the arts to create an opera based on an environmental short story he wrote 15 years ago. The music is by Mark Springer and Sarah Sarhandi. Piano and viola performers respectively, Springer and Sarhandi set up the high-energy band Rip, Rig and Panic, which has recorded with Virgin Records. The sets are by Hirst; the costumes by Japanese fashion designer, Kohji Tatsuno;

and Julian Hope, with experience at Glyndebourne and the Welsh National Opera, will direct. Hope's influence will, it is suggested, temper the somewhat radical ideas in Hirst's inter-disciplinary rigours of opera.

The Edinburgh team suggests that Hirst's visceral observations on modern life and Moynihan's bleak libretto will be counterbalanced by the lyrical music of Springer and Sarhandi's score. In a 35 square foot cage, the opera's protagonists are a snake, a capsule, a tablet - hanging on the walls and in the air. The experience is supported by a synchronised light show "playing to" the overture and finale. According to Moynihan, the opera's theme is the struggle between the individual and tyrants who exploit any belief - science, medicine, environmentalism - for self-aggrandisement. A tribal chief, Agongo, is in the thrall of a dwarf who controls the tribe by metamorphosing from witch doctor to Russian general and finally to western surgeon, wreaking havoc with broken promises.

with one chanting a mantra of "green" in Latin with another with surgical and pharmaceutical palliatives in the accompaniment of respirator machines. Neither side is granted victory, but there is hope that Agongo may be a "green" man.

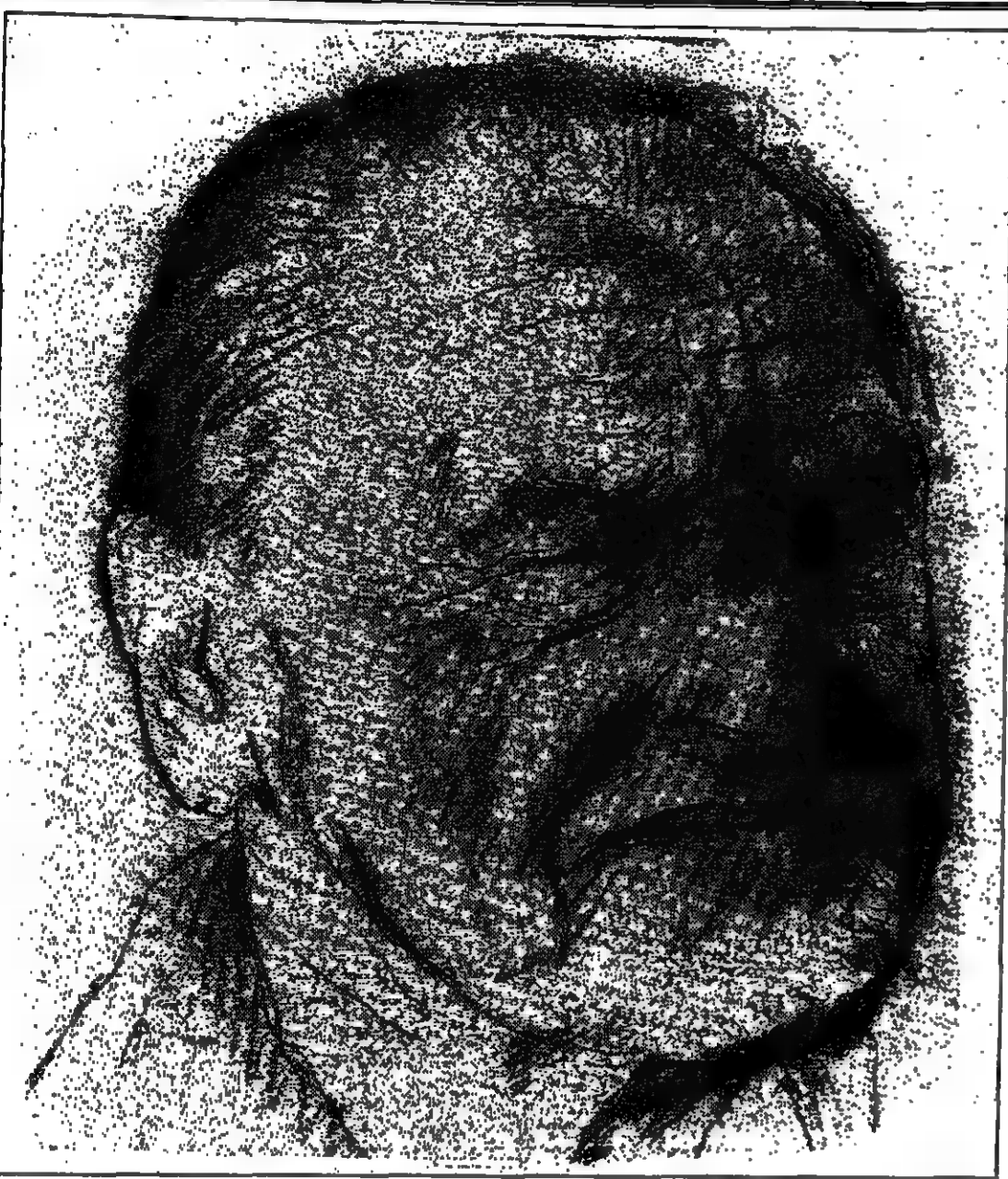
This cautiously proselytising opera is targeted at the kind of audience which might be attracted by Philip Glass's operas or Michael Chabon's ballets and Moynihan hopes that commercial opera - fashion or - cream brands, perhaps - will ally themselves to modish and target a specific lifestyle, might be marketing benefits here.

The Proms A lost 'Cry' from the past

There was a double Prom on Friday, and its late second concert attracted many new arrivals after the first: not the usual way around. That was because the second concert consisted entirely of Swayze's 1979 *Cry*, eighty minutes' worth of amplified voices - the BBC Singers - being put sonorously, slowly and meditatively through quite difficult hoops. *Cry* is, or was, almost a "cult" piece. By the late 1970s, Swayze was not the only composer to feel disillusioned with academic music (mostly post-serialism then) and with avant-garde cooties. After flirting with rock, he found his inspiration in the folk music of Africa, where he has since gone to live. The outcome was *Cry*, a musical "creation-myth" which rejected the formal devices of Western music in favour of vocalisation and native rhythms. Originally it depended exclusively upon the voices. A 1980 version made use of amplification, and a 1982 one subjected the voices to electronic "treatment" as well, revised for the 1983 Prom performance. That was the form in which *Cry* made its famous impact: a suggestive hush of voices with a slow rate of change, rendered monumental and even magical by state-of-the-art technology.

It has not worn well. As aids to meditation for non-specialist audiences (probably stoned), long minimalist pieces have the advantage of instant familiarity; for "visionary" appeal, Taveira and Gorecki have achieved more with simple Western harmonies. The special sounds of *Cry* are not so special now. (Nor, this time round, did they seem so haunting: high sopranos in *forte* were a hard amplified glare, and the intricate subsidiary voices were often not enhanced but muffled by the electronics.) Above all, *Cry* seems innocent of any structure that would sustain its ambitious length.

David Murray



A portrait may indicate the wealth, status of a sitter, offer a fair likeness, and also reveal something of his or her character: Somerset Maugham by Graham Sutherland (left) and Lord Goodman by Lucian Freud

Portraiture seen in its own right

At the National Portrait Gallery Susan Moore is drawn to the faces for clues to history

A portrait collection is unlike any other art gallery. Here, it is the subject of a work of art that counts; artistic merit a happy accident. As the aspiring young British history painter Benjamin Robert Haydon put it in 1817: "Portraiture is independent of art and has little or nothing to do with it."

A portrait may easily indicate the wealth or status of a sitter, and offer a fair likeness. It may also reveal something of his or her character. The Romantic notion of the genius artist as uniquely capable of divining and representing the essence of an individual lingers on. We scan faces for clues to history. Where better to search for clues than in portrait drawings, the most immediate - and often the most

intimate - response of artist to sitter? Some rarely exhibited drawings from the collection of the National Portrait Gallery in London have returned home from a North American tour and a selection is now on show in St Martin's Place. This disparate display, ranging from Nicholas Hilliard's keep-sake icon of the Virgin Queen to Kitaj's pastel of the art historical knight Ernst Gombrich, is utterly compelling. Unlike other exhibitions, the captions are almost as rewarding as the works of art.

At one extreme is the sick, formulaic chalk of Charles Dickens by one Samuel Laurence, the quintessential anodyne portrait that tells us nothing but shows that, in terms of portraiture, the great and the good do not invariably get their just deserts. In contrast, the 18th century poet William Cowper could not have hoped for a more sympathetic recording than that by George Romney.

Romney considered this rare pastel as the nearest he had come to a perfect representation of life and character, and had taken great pains to express what he had often witnessed, "the poet's eye in a fine frenzy rolling". That said, informal attire - no wig - and the suggestion of a keen, nervous sensibility (Cowper was a manic depressive) were conventions widely applied to the portraits of writers and artists of the period.

No lesser witness to the 18th century physiognomist's premise that character can be read in a face is the head of Somerset Maugham, Graham Sutherland offers an incisive analysis of the hard, thin lines that scour and sour the writer's face. Sutherland spoke of dovetailing the diverse and complex forms into a single rhythm that "the maximum action in repose". In Lucian Freud's no less impressive study of the recumbent Arnold Goodman, scrutiny of form appears as and in itself. This is not a portrait of a distinguished law lord. From Freud's peculiar vantage point, Lord Goodman's head is simply an intriguing mass of fleshy folds, crags and cavernous nostrils complemented by wisps of untamed hair.

Freud could never be accused of flattering his sitters. Not so Henry Lamb, who perhaps can be forgiven his outrageous if tentative idealisation of the Hapsburg features of his formidable mistress, Lady Ottoline Morrell. (John Singer Sargent, a hand-painting, animated the mannish features of the composer Dame Ethel Smyth by imploring her to sing the "desperately exciting songs" she knew.) Elsewhere there is ample evidence of the advantages of some intimacy between artist and sitter. In the presence of Gwen Raverat, known since childhood, a young John Maynard Keynes sits reading, and obvious to the artist's intent. William Holman Hunt described his pencil portrait by Millais as "totally different from all other sketches which my friends have done being unlike a murderer, or a bear drinking pick-pocket." Edward Burney's water-colour of his older musician brother, Charles, playing the fiddle, is an astonishingly tender expression of fraternal affection.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

Concertgebouw Tonight: Jun'ichi Hirokami conducts National Youth Orchestra of Scotland in works by Stravinsky, Ibert and Tchaikovsky, with flute soloist William Bennett. Thurs: Nikolai Luganski and Oksana Jablonskaya in a duo piano recital. Sat: Dmitri Sitkovetsky in conductor and violin soloist with New European Strings. Sun: Moscow Chamber Orchestra plays Arensky, Liszt, Stravinsky and Tchaikovsky. Next Mon: Kreier String Orchestra plays Shostakovich, Britten and Dvorak, with soprano Claron McFadden (24-hour information service 020-675 4411, ticket reservations 020-671 6345)

ATHENS

ATHENS FESTIVAL. State Theatre of Northern Greece presents Dimitris Sifantios' *Babylon* on Fri and Sat at the Odeon of Herodes Atticus. Highlights later in the festival include

CHICAGO

RAVINA FESTIVAL. Tonight: Los Lobos. Thurs: The Neville Brothers. Thurs: Midori violin recital. Fri: Riccardo Chailly conducts Chicago Symphony Orchestra in works by Gershwin, Glass and Dvorak, with violin soloist Gidon Kremer. Sat: Chailly conducts Stravinsky, Chopin, Debussy and

COPENHAGEN

Tivoli Tomorrow: Gary Bartini conducts Tivoli Symphony Orchestra and *Die Walküre* by Wagner. Tomorrow: Gary Bartini conducts Tivoli Symphony Orchestra and *Die Walküre* by Wagner. Tomorrow: Gary Bartini conducts Tivoli Symphony Orchestra and *Die Walküre* by Wagner.

LONDON

THEATRE. King Lear: Robert Stephens gives a towering performance in Adrian Noble's RSC production, successfully transferred from Stratford. In repertory with *The Merchant of Venice* and *The Tempest* (Barbican 071-636 8891). The Miracle Worker: Jenny Seagrove is the beautiful heroine in William Gibson's well-tailored tear-jerker about the blind infant Helen Keller (Comedy 071-989 1731). The Seagull: Judi Dench heads a splendid cast in Pina Bausch's new version of the Chekhov play (National 071-928 2252). Broken Glass: British premiere of Arthur Miller's latest play, in which a woman becomes paralysed although she has no discernible ailments (National 071-928 2252). Lady Windermere's Fan: Philip Prowse's glamorous production of Oscar Wilde's 1892 comedy (Albery 071-369 1730). The Cryptogram: Lindsay

VERONA

This summer's operas are Norma, Otello, La bohème, Aida and Nabucco. Placido Domingo sings in a gala performance of operatic extracts tonight, with other soloists including Cecilia Gasdia and Leo Nucci. The season runs till Sep 2 (045-596517).

WASHINGTON

The main summer show at the Kennedy Center is Miss Saigon, the musical love story set during the Vietnam war. Daily except Mon (202-467 4600). Country singer Rabea McEntire gives tonight's concert at Wolf Trap, followed tomorrow by jazz saxophonist David Sanborn, plus Preservation Hall Jazz Band on Thurs and Mannheim Steamroller electronic music on Fri. Next week's programme features the Righteous Brothers, Nanci Griffith and the Wolf Trap Opera Company (703-255 1111).

ARTS GUIDE	
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Tuesday: Performing arts city by city.	
Wednesday: Festivals guide.	
Thursday: Festivals guide.	
Friday: Exhibitions guide.	
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NBC/Super Channel: FT Reports 1230.	
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Euronews: FT Reports 0745, 1315, 1545, 1815, 2345	
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NBC/Super Channel: FT Reports 1230	
FRIDAY	
NBC/Super Channel: FT Reports 1230	
Sky News: FT Reports 0230, 2030	
SUNDAY	
NBC/Super Channel: FT Reports 1230	
Sky News: FT Reports 0430, 1730;	

In a disused army barracks in the village of Folembay, north-east of Paris, 17 Algerian fundamentalists are being detained by the French government. The targets of a French crackdown on Algerian militants following the deaths of five French citizens in Algiers last week, the suspected militants have been served with expulsion orders.

Mr Charles Pasqua, France's hardline interior minister, says the 17 are free to leave as soon as they find a country willing to take them. But so far, there have been no offers and French government officials said yesterday they had not sought to identify any country which would grant them political asylum.

If inmates of Folembay find themselves trapped, their detention symbolises the extent to which French policy towards Algeria is tangled. France's unyielding stance towards Algerian fundamentalists, and its reluctance to deal with moderate Moslems in its former colony, reveals a policy rift with its western partners.

More worrying, the latest crackdown has raised the spectre of reprisals from radical Islamic groups, which could draw France into the bitter and bloody conflict between the military-led regime in Algiers and the Islamist fundamentalist opponents. The conflict has claimed the lives of at least 1,000 Algerians and 56 foreigners since last June.

The possibility that France may be drawn into the crisis was clearly expressed in a message from the Islamic Salvation Army (AIS), a militant group which is linked to the Islamic Front (FIS). The FIS was poised to win general elections in 1992, before they were annulled by the Algerian government. The front is now outlawed.

The AIS is demanding the immediate release of the 17 detainees. "The arrest and detention of our brothers is a declared war on the FIS and on Algerian Moslems," the statement said. "France should renounce this policy of belligerence as it will assume responsibility for what will happen."

The warning is the first issued to France by Algerian radicals, and the French government is taking it seriously. "There will be no neglect of the threat," said the interior ministry, which responded in the weekend with a tightening of security measures at railway stations, airports and embas-

Victims of the past

John Ridding says France's strategy over Algeria is perilous

... and with high-profile police operations to check the identity papers of motorists.

The academic reflects the mood in which French policy towards Algeria is tangled. France's unyielding stance towards Algerian fundamentalists, and its reluctance to deal with moderate Moslems in its former colony, reveals a policy rift with its western partners.

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rian government should broaden its political dialogue to opposition groups that reject violence. Mr Pasqua stated that the only choice is between the existing, if flawed, regime and a radical Islamic government. He dismissed as "rubbish" the idea of a moderate Islamic government taking power in Algiers.

The rift has become clearer since the attack on the French embassy building in Algiers. Mr Pasqua accused the UK, US and Germany of being lenient towards Moslem fundamentalists on their soil, a charge rejected by France's partners. One French foreign ministry official argued that the US is "still traumatised" by its experience in Iran and keen to cultivate ties with moderate Islamic leaders.

For France, the prospect of a radical Islamic government in Algiers is of acute concern. In addition to the domino effect across the Maghreb, France is anxious to avoid an influx of thousands of immigrants from its former colony should a radical government come to power.

With unemployment at 12.7 per cent and with anti-immigration parties such as the Front National winning about 10 per cent of the vote in recent regional and national elections, a big influx of refugees from Algeria could exacerbate social tensions in France. "It must be a great concern," says a western diplomat in Paris, "particularly if the Islamic Front is already a large Algerian and North African community."

France's gamble is that, by providing qualified political support for the existing regime in Algiers and supplying finance to the economic plight, this possibility can be avoided. But this year, France agreed to the rescheduling of some of the country's foreign debt to the Paris Club member nations.

The stakes of the gamble, however, are rising ever higher. An upsurge in violence in Algeria since the full-scale spring supports the objectives of Mr Alain Juppé, French foreign minister, that "the status quo is no longer viable".

In terms of French policy, the stakes are high. The French want to maintain its position in Algeria and its role as a security issue, as demonstrated by the latest clampdown. The French government risks exposing the fragility at home that it is so anxious to avoid.

The stakes are high. The French want to maintain its position in Algeria and its role as a security issue, as demonstrated by the latest clampdown. The French government risks exposing the fragility at home that it is so anxious to avoid.

Mr Laurence Tisch, chairman of the US television network, could not have been more blunt when he spoke to reporters two weeks ago. "I'm sending a signal to Wall Street," he said. "I want to make it unequivocal... we have absolutely no intention today of selling CBS."

Wall Street, however, was not listening. Since Tisch's denial that CBS was up for sale, rumours have mounted about a possible bid for the television network. Investors anticipating a takeover have bought 1.5 million shares, helping to push the price up almost 9 per cent from its recent low to about \$35.

Among those mentioned as potential suitors for CBS are the film and entertainment conglomerate Walt Disney, the media magnate Mr Ted Turner, whose Turner Broadcasting System owns cable television channels such as CNN, and Tele-Communications (TCI), the largest US cable operator.

Of these possible candidates, TCI is regarded as the most likely buyer. The group has said it would be interested in acquiring CBS in partnership with Mr Barry Diller, the entertainment business executive at QVC Network, the cable television home-shopping channel, which has tried to take control of CBS. But his plans to merge CBS with his other holdings fell through last month after QVC's largest shareholder, the cable group Comcast Communications, took over QVC.

Speculation about a bid for CBS was intensified by Mr Diller's failed plans to sell his own network, for all his protesting about the bid rumours, has inadvertently added to the uncertainty over the network's future. When he agreed to the merger with Mr Diller's QVC, Mr Tisch made it clear the deal would mark the beginning of the end of his time at CBS. "I've been here 20 years now. I've enjoyed it immensely, but there's a time when you have to move on," said the 71-year-old Mr Tisch.

Now that the merger plan has collapsed, Mr Tisch is having a hard time convincing Wall Street that he is suddenly interested in running CBS again, and maintaining its independence.

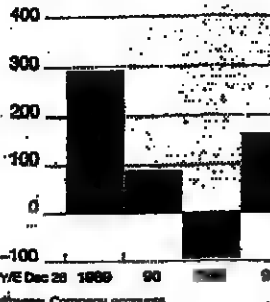
Though the failed merger plans triggered talk of a CBS sale, the likelihood is that buyers would anyway have begun circling the television network.

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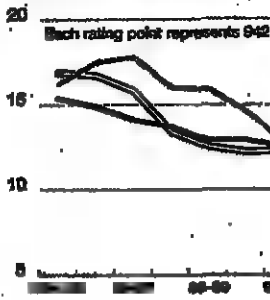
Patrick Harverson on the likely suitors for the biggest prize among the US television networks CBS (Can they all Be Serious?)

CBS: chasing the leader

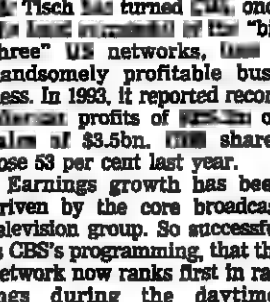
After-tax profit/loss (\$m)



Prime-time ratings Sept 1993-April 94

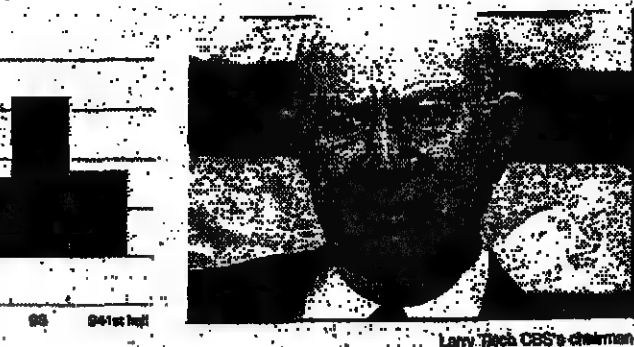


Shares Sept 1993-April 94

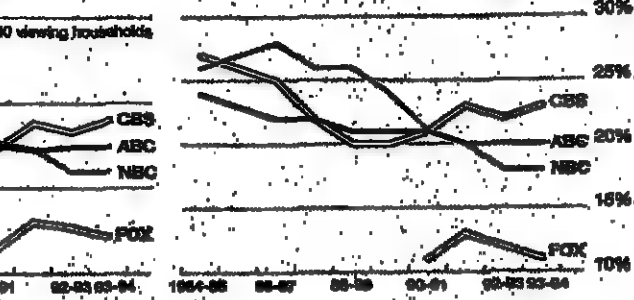


Source: Nielsen Media Research

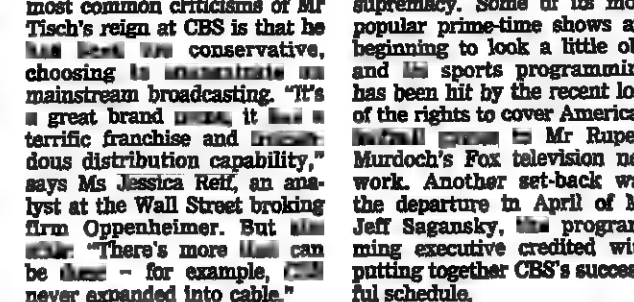
Mr Tisch has turned CBS, once the most successful of the "big three" US networks, into a handsomely profitable business. In 1993, it reported record after-tax profits of \$300m on sales of \$3.5bn. CBS shares rose 53 per cent last year. Earnings growth has been driven by the core broadcast television group. So successful is CBS's programming, that the network now ranks first in ratings during the daytime, prime-time and late-night time periods, a unique feat. Among its most successful programmes are *Late Night* with David Letterman, which dominates late evening chat shows, the comedy programme *Murphy Brown* and drama programme *60 Minutes*. The company also owns local television stations and a radio business, both of which make money. But outsiders also see potential for taking the business into new areas. One of the



Prime-time ratings Sept 1993-April 94



Shares Sept 1993-April 94



Source: Nielsen Media Research

most common criticisms of Mr Tisch's reign at CBS is that he has been too conservative, choosing to concentrate on mainstream broadcasting. "It's a great brand name, it has a terrific franchise and it has a huge distribution capability," says Mr Jessica Reif, an analyst at the Wall Street brokerage firm Oppenheimer. But the view "There's more that can be done - for example, CBS never expanded into cable." Mr Tisch is also criticised about CBS's finances. He has built up a \$1.1bn cash pile which the group last month announced it plans to use to buy back 3.5m of its own shares at \$35 a share. The move is seen as a defensive strategy to push up its own share price after the failed QVC merger but, according to an industry observer, it illustrates Mr Tisch's "lack of ambition". Potential buyers can also see whether CBS can maintain its

Malone, TCI chairman, has said he would only do so if Mr Tisch would sell to them. "If Larry still wants Barry, and Barry still wants Larry, the money can be found," Mr Malone told *Newsweek* magazine.

There would be logic to such a move. Mr Diller's managerial and programming talents, TCI's cable operations, and CBS's broadcasting franchise would mesh easily.

But although TCI may be the most likely bidder for CBS, others may also see benefits from buying the network. A merger between Disney and TCI would bring together two of the strongest brand names in the US entertainment business. CBS's extraordinary reach across the US (it broadcasts into more than 99 per cent of the country's television-owning households) would provide a distribution network for Disney's entertainment products. But any deal with Disney would be subject to government rules which restrict links between film studios and television networks - though such rules are due to be relaxed in late 1995.

For the other potential bidder, Turner Broadcasting, there would be strategic benefits in merging a cable programming company with a broadcast network. Mr Turner has hidden his ambition to run a network but he cannot move without the assent of his company's two main shareholders - TCI and Time Warner - which are unlikely to be so keen on a deal. Time Warner plans to launch its own television network and TCI would be unwilling to give the go-ahead if it had its own plans for CBS.

The competition building to take over CBS may be on. For decades US television has been dominated by three networks: CBS, ABC and NBC. With the arrival of a fourth network in the shape of Mr Murdoch's Fox Television, two more newcomers on the horizon (Paramount, like Time Warner, plans its own network), and scores of cable channels providing programming to viewers, the field has become crowded.

Mr Richard Grandjean, president of the specialist investment banking firm Global Film Equity, says: "You have to sell yourself, with all the programming becoming available over the air. There are not good reasons to be cautious about paying a robust price for a network."

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Grooming for higher things?

From Mr Neil King.

Sir, In former days that nice Mr Clement Crisp used to tell us all about the ballet. Then he ventured into matters material, although only as regards the Royal Opera House, which might still be regarded as his territory, I suppose. (He would, no doubt, be pleased to learn that I would willingly wear white tie every night at the *Parisian* in view of the price reduction suggested by one correspondent, probably with decorations.) Now, however, he appears to have assumed the mantle of your culinary correspondent ("Awful lapse in taste", August 6).

Will he be continuing his foray through the various sections of your illustrious delightful pages with the forthcoming *Weekend*? Perhaps, my dear Sir, you are grooming him to be your successor.

Neil King, 169a York Way, Camden Town, London N1 9LN

Language is all at sea

From Mr J K Hall.

Sir, With reference to Mr Jacques Toubon's quixotic campaign to purify French language, I recently attended a meeting in Paris where the rather suspect word "leadership" cropped up. When the meaning was queried by one of the participants it was quickly explained by another member of the group that the French equivalent of "the chairman's yacht".

O K Road, 7 rue Jean-Pierre Huberty, L-1742 Luxembourg

Programme Africa itself wants

From Mr Shadrack Ndam.

Sir, Michael Holman's article on the United Nations Industrial Development Organisation ("UNIDO, UNwanted", August 4) raises a number of points about the Industrial Development Organisation (UNIDO). It isn't strictly a United Nations agency but it is committed to it and is primarily responsible for carrying it out. Moreover, all countries, developed and developing, supported its adoption.

Unquestionably, Africa's industrialisation is a difficult task. But the alternative is no one would wish for a continent forever dependant on

external aid and intervention. A concentration on Africa's industrialisation is an attempt to get beyond the short-term solutions, and instead, through rising standards of living, to offer longer-term market possibilities for all countries.

UNIDO's direct resources for IDDA programmes are small, but we give all the support we can. Our main activities are entirely demand-driven - funded through UNDP, bilateral donors, and, increasingly, the private sector itself. We are given this work because we are seen to have skills and resources that are needed for Africa's industrialisation, just as in other parts of the world.

Michael Holman may find this risible, but it is a fact, and it keeps us busy.

I'm sorry he didn't like the 1988 document he quoted. We could provide him with some more ones. In a multi-cultural environment, our prose does tend to get rather heavy, and the style hardly matches A A Milne's. We were compared with Poon Bear, and not with Eeyore. Shadrack Ndam, head, Africa programme, Country Strategy and Programme Division, UNIDO, Vienna International Centre, PO Box 500, A-1400 Vienna, Austria

Pay formula to unlock rail dispute

From Professor W P Bradshaw.

Sir, The frustration of the railway dispute is all the greater because the ingredients exist for a settlement from which all parties can gain. There is considerable scope to increase the productivity of signalmen by matching practice on all shifts to present working, and by treating signalmen more as a team of the system with greater responsibility for decision-making at times of disruption and for spreading information to users of the system.

With such an upgrading of the role of signalmen in the larger and more modern signal boxes, the number of supervisory staff could be reduced with significant economy. Looking to the future, the latest electronic technology will open the door to further productivity enhancement.

The union won't talk about the future until its claim about past productivity has been recognised. The signalmen themselves feel aggrieved because less responsible workers, like those on station platforms, have already benefited from pay restructuring and increased earnings.

There is a way forward which is likely to be acceptable to the union, will unlock discussions about future productivity and will reassure government, which is legitimately concerned that pay settlements above the level of inflation should be self-financing.

This consists of paying to the signalmen a settlement which will amount to something like 5.7 per cent on basic rates. This will consist of the 3.2 per cent already on the table plus a lump sum of about £100. The lump sum would be consolidated into basic rates by the year only. In subsequent years the funding of the lump sum would come, as a first charge, from the new productivity settlement.

taking to enter into a full-time working party to consider, in detail, the productivity deal, and to conclude those discussions by the end of August. The results would be put to a ballot of all signalmen to be concluded by the end of September.

If some of the points in the above package are given in an industry with a high profile this should not be difficult. The risks attached to all parties - government, signalmen and the union - in the above procedure are small and the undertaking that it would be for the signalmen themselves to ballot on the productivity working party will give everyone an incentive to be imaginative in their deliberations. W P Bradshaw, Centre for Socio-Legal Studies, Wolfson College, Linton Road, Oxford OX1 2UD

Surprising claim about market testing in efficiency study

From Mr Barry Harverson.

Sir, I have read the government reports that are more damning than the study carried out to determine whether the civil service is getting value for money from its use of consultants ("Whitehall could save £130m on consultants", August 5).

The main findings, that a staggering £130m is being paid out to the private

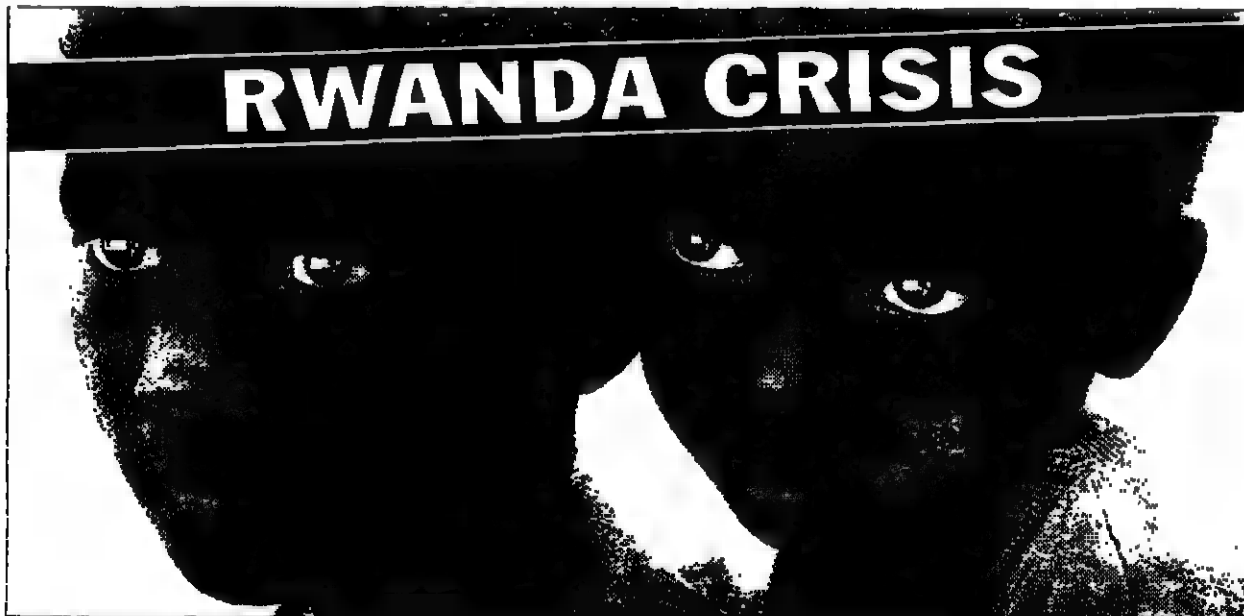
a miserable return of just £12.5m each year, is little short of astonishing and should be fully investigated by the Public Accounts Committee.

I was surprised that the report also claims that a positive note that consultants have been instrumental in the "success" of the central government market testing programme. Is this not the same policy that was deemed to be

"successful" that the recent white paper on the civil service quietly announced that departments and agencies would no longer be obliged to continue with the initiative.

Only under the government could we have had a senior servant, Sir Peter Levene, rather than an accountable minister, being flogged with the media and explain away the shocking

taxpayers' money. The report shows once again that the government is obsessed with the private sector and cares little that the public sector can often do the same work a lot more cheaply. Barry Reamsbottom, general secretary, Civil and Public Services Association, 160 Falcon Road, London SW11 2LN



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FINANCIAL TIMES

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Tuesday August 9 1994

Freeing Latin American trade

The agreement by the presidents of Argentina, Brazil, Paraguay and Uruguay last week to put in place a customs union from the start of next year is a potentially encouraging development. It is vital, however, that this agreement prove outward-looking, not just towards the rest of Latin America, but towards the world. It is still too early to be sure it will pass that test.

The decision to go ahead with the Mercosur customs union is yet another indication that the region's governments have buried historical rivalries and are trying to turn away from protectionist and statist economic policies. It also gives a symbolic boost to the cause of economic integration in the western hemisphere, however remote that goal remains.

The Mercosur accord - which brings together 180m people in a market worth more than \$600bn a year - should secure a relatively open Brazilian economy. For much of Latin America, that may be a more important objective than free trade with the US. Although Mercosur has failed to meet the ambitious goals of free movement of labour, capital and goods initially envisaged by the four governments, the treaty obligations of Mercosur will make it much more difficult for them to return to protectionism.

The fact that a customs union - with a common external tariff regime - has been created should also prove positive. Behind a common tariff, there is no need to formulate complicated rules of origin for imports. These are an inevitable feature of the patchwork of free trade agreements being negotiated in the Americas and also a potentially significant obstacle to trade.

Building block

The agreement has also been framed to allow for future accession - initially on an associate basis - of other countries, such as Bolivia and Chile. It thus has the potential to become the building block, rather than a stumbling block, towards further economic integration.

For all that, the devil of such agreements is in the details - aspects of which are still unclear - and the way governments choose to implement them. Under

lunacy, the governments tend to see the creation of trading blocs as an answer to an imaginary dilemma, namely that their economies are trapped between the high technology exporters, on the one hand, and the ultra low-wage economies of Asia, on the other.

The risk is that such a defensive view of trade opportunities will lead to the replication of mistaken import substitution policies at an international level. If barriers to imports are set too high, trade diversion will outweigh trade creation, economic efficiency will deteriorate and export performance falter. This, in turn, will vindicate initial defensiveness and reinforce protectionist sentiment.

Obvious flaws

From this perspective, Mercosur has obvious flaws. The agreement has forced Argentina, for example, to raise its current zero tariff on capital goods imports to between 14 and 16 per cent. An important sector of Argentine industry will be protected from Brazilian competition for a five-year period - worrying because such "temporary" protection often has a way of becoming permanent. Similarly, the car regime provides continued heavy protection for domestic automobile manufacturers.

One worry then is that Mercosur might encourage its members to believe they have an alternative to seeking global competitiveness. Another is that it may make hemispheric integration not easier, but more difficult to achieve. One trade specialist, Ms Nora Lustig at the Brookings Institution in Washington, has suggested the establishment of a regional agency to ensure such accords remain open to third parties. She suggests such an agency should be a central topic at the forthcoming summit of the Americas which President Bill Clinton has called in Miami in December.

The idea is right, but should be taken still further. The aim must not just be to ensure these accords do not raise obstacles to hemispheric economic integration. They must also be consistent with what Latin American countries have most shied away from during the past half century: integrating efficiently with the world economy. Here is an agenda item for the World Trade Organisation.

A choice of large aircraft

The dogfight over which aircraft should replace the Royal Air Force's ageing Hercules transport fleet has so far been mostly confined to snarls and barbs. The two combatants - Lockheed, the US manufacturer of the updated Hercules, and British Aerospace, potential partner in the flatly-named European Future Large Aircraft - have mostly settled for emotive newspaper advertising to make their pitch. But the fighting before a cross-departmental Whitehall committee this autumn will probably be real blood.

Ministers and civil servants have to make a finely-balanced argument. Lockheed contends that its latest generation of Hercules, the C-130J, is an evolution of the aircraft which has served the RAF and many other air forces well. Now new technology will cut the crew required, and hence the operating costs, and improve its performance. Better still, as a cash-strapped Ministry of Defence's point of view, the aircraft will be available off the shelf in 1996 at a fixed price.

British Aerospace argues that the Future Large Aircraft will be a more modern design than the Hercules, which will allow it to operate at lower cost over its service life. The FLA will be faster and larger, and so can transport equipment which will not fit into a Hercules. It is a "new world" replacement market - the Hercules which the FLA could attack.

More parochially, BAe also fears that, if the UK does not back the FLA, the other members of the consortium will proceed anyway but that British companies will be excluded. In particular, BAe may lose its role as wing-maker to the Airbus consortium, with DASA of Germany taking its place.

Competing claims

In sifting these competing claims, the first decision must be: can Britain afford to wait for the FLA to arrive? The current Hercules fleet is showing its age badly. If an accurate assessment shows that the fleet cannot be maintained at a reasonable cost into the next century, then the FLA is simply not an option.

A rigorous examination of the development costs of the FLA, and the lifetime running costs of both aircraft, is also needed. Aerospace

manufacturers are notoriously starry-eyed about the final bills for their big ideas. The aircraft which was built for less than manufacturers' initial estimates has yet to fly.

In this Lockheed has a huge advantage, since its aircraft is all but built, and it stands ready to sign a deal at about \$25m an aircraft with the MoD. The onus is thus on British Aerospace to prove that its costings are accurate. That must eventually mean that it is prepared to back its pricing of the FLA with its own resources.

Firm order

At a bare minimum that would require a fixed price bid from British Aerospace for a firm order. BAe might also have to underwrite the cost of maintaining the existing Hercules fleet while waiting for the FLA. In return, the MoD might have to agree to stop flitting with the aircraft's specification, a perennial habit of civil servants which drives up costs of many programmes.

Definite answers to these questions will take time to establish, and BAe is hampered because the final feasibility study for the FLA is not due to be completed before the end of the year. If BAe really thinks that it can provide quick answers to the testing questions, then it is perhaps justified in arguing for more time to make its case.

It is also true that Airbus Industrie, which would manage the FLA project, has a good recent record. In particular the A340 civil airliner has proved that the consortium can develop an aircraft which has a strong market in relatively short order.

However, in arguing for British participation in the FLA, BAe should be mindful of the risks of fixed-price military contracts to aerospace companies. Hundreds of millions of dollars written-off by McDonnell Douglas on its C-17 jet transporter are a graphic reminder of what can go wrong. It should also remember that it would only be a minority partner in the project and so not fully able to control its own destiny. If BAe is serious about pursuing the FLA, it had better make sure that the terms on which it might settle with the MoD are not ones which the company might live to regret.

It is lunchtime on Friday October 13 1994, and a large UK bank is failing. Its capital has been wiped out by the collapse of several big companies and catastrophic falls in markets. As rumours spread through London money markets, its credit dries up, and it starts to lose deposits.

At an emergency meeting attended by the governor of the Bank of England, the bank's board agrees to close the bank at the end of the day so that it can be recapitalised in an orderly way.

But Mr Eddie George, the governor, knows that an even larger problem is looming. He phones Mr Alan Greenspan, chairman of the US Federal Reserve Board, to warn him that London's clearing systems are about to grind to a halt.

The bank's status as a clearing one of a privileged brand which has existed in the UK since the 1770s. It is one of 18 which pass £100bn - in large electronic payments and cheques - through the clearing system each day. As well as big UK banks, Citibank, Deutsche Bank and Credit Lyonnais also have such status.

By lunch the bank owes billions of pounds to other banks in the Clearing House Automated Payment System (Chaps). It has sent them thousands of computer messages authorising immediate payments on behalf of large customers such as quoted companies and financial institutions.

But although the other banks have credited cash to customers' accounts immediately, they have not received the money. That should happen late in the afternoon, when promises are settled up. At that moment, if Bank A owes Bank B £2.1bn and is in turn owed £7.8bn by Bank C, it should pay Bank B £5.7bn.

Mr George has been warned that Bank A is about to refuse to settle. It intends to retain the £2bn it is likely to promise today, until it has received an injection of public money and is certain it can pay.

This could not only cripple another clearing one of the largest UK banks, but also force suspension of the Chaps system. Currency markets would halt, because 45 per cent of the money passed through Chaps is the sterling half of foreign exchange contracts.

Mr George is not at all happy about this. He is avoiding catastrophe, but at last...

This nightmare - two years left to come true. After that, the Bank of England hopes to have banished it to the realm of fantasy. "There is a real but avoidable risk in the financial system, and we could just sit back and tolerate it," says Mr Martin Lowther, the Bank's deputy chief economist.

The solution which clearing

What to do when Chaps can't cope

Reform of UK bank settlements procedures aims to reduce risk to the financial system, says John Gapper

Banks have agreed with the Bank of England to abolish net settlement at the end of the day. Banks will instead settle their big payments to each other in full as accounts are credited, so eliminating the hours during which they pile up obligations.

Real Time Gross Settlement (RTGS) should allow regulatory authorities to take a troubled bank out of the system without disrupting others. If it was settling its accounts instantly, it would not owe anything when it was shut down. "It means that when you stop the clock, you can make a clean break. The whole payments system does not have to seize up while you sort out the mess," says Ms Lowther.

Real-time cash settlement could also allow instant settlement of securities contracts. In addition, if all countries achieved real-time settlement, the systems linked to delays in settlement of foreign exchange across time zones.

The latter is a long-held ambition of central bankers since the 1974 collapse of Herstatt, a German bank. Because of different time zones, customers who bought the D-Mark halves of thousands of foreign exchange contracts were left unpaid when the bank collapsed before they were paid the corresponding amounts in dollars through US banks.

For central bankers concerned with payment systems, RTGS sounds like a perfect world. But it is not a one-way bet for the UK clearing banks. They not only face paying for a service which has been cheap until now, but could have to alter balance sheets in a way that squeezes profit margins.

Further, some central banks, including the US Federal Reserve, operate real-time settlement commercially, charging banks for providing cash to oil the system. Others, such as the Bank of France, have created resentment by trying to impose their blueprint of real-time settlement on commercial banks.

When faced in 1992 with the possibility of being strong-armed into an expensive and difficult new world, some UK bankers argued that set-



tlement was only one of many risks. Thus it was illogical to single it out for attack. A bank takes risks every time it lends cash, or enters a securities contract.

But settlement risk is unlike other forms of banking risk for two reasons. The first is that it is virtually impossible to control who participates in the system. When they lend money, banks can probe the strength of those they are dealing with, either by checking the credit record of a person, or looking up the rating of a company.

But when they clear payments from other banks, it is impossible in

practice to carry out such vetting. They must honour instructions from all companies which are customers of a fellow bank. They cannot impose overall limits on their indebtedness to other banks - a method introduced in Chaps in 1982 - but this is a crude method of limiting risk.

The second unique characteristic of settlement risk is that it is hard to charge appropriately for it. A bank covers the higher risk of lending to a bad borrower by charging more. But when it clears payments from other banks, it is impractical to levy anything other than a

flat charge. These two factors were instrumental in persuading banks to adopt a real-time system in stages from the end of 1988. "Once you establish that real-time settlement is cost-effective, the argument against it is very weak," says Mr Eric Sepkes, a Citibank vice-president who headed negotiations with the Bank of England on behalf of the commercial banks.

Having agreed the principle of RTGS, the UK banks and the Bank of England have only one big issue to resolve. This is how much the Bank will charge participants to cover the running costs of a real-time system. It has promised a charge of "pence rather than pounds" for each of the 40,000 daily Chaps transactions.

Instead of building another system, the banks have adapted Chaps. When it switches to real-time, each payment message between banks will be forwarded electronically to the Bank's computer. This will send back authorisation for the transfer providing that the paying bank has money to cover it.

Rather than the Bank providing this liquidity and charging for it - as in the US - banks will provide it. They will deposit liquid Treasury bills with the Bank, which will lend them for payments made across the system. They will have to have enough collateral to cover settlements at any point in the day.

This has potentially far-reaching consequences for banks because the liquid assets they will deposit with the Bank earn them less interest than do loans to companies or individuals. If the real-time settlement system forces them to buy more liquid assets, it could squeeze their margins.

But the system will give banks an opportunity to keep payment flows even during the day in order to minimise holdings of liquid assets. All payments on computerised financial models to ensure that they can manage flows of liquid assets in a real-time system as cheaply as possible.

"At the margin, it may affect banks' profits, but in a sense they have escaped lightly," says Mr Charles Bryant, a consultant to the banks' Association for Payment Clearing Services who has co-ordinated development work on RTGS.

By 1996, the Bank of England should thus have eliminated a catastrophic risk to the UK financial system. It would be unlikely to have an accident in the meanwhile. But bankers may at least pause for thought on the four Friday the 13ths before then.

Capitalism must seize the high ground

Few would dispute that events in the past few years have demonstrated the practical desirability of markets over socialism. Yet there is good reason to doubt that capitalism's victory is total. Despite the efforts of many great economists, political philosophers, and historians, economic liberty has not captured the moral or high ground in public debate. Thus its security as a system of economic organisation is not guaranteed anywhere in the world.

If economic liberty is valued today, it is rarely because it is considered more just or more proper than any alternative. It is valued primarily on managerial and technical grounds. We feel free to argue about how many "jobs" this or that piece of legislation creates; but we remain squeamish about asking whose property will be used to create these jobs.

An argument over whether there ought to be ceilings on corporate remuneration centres on whether high salaries are economically justifiable, but not on whether government ought to have any over such matters. We might dispute a proposal to force another function on private business on grounds of cost, but not on grounds of the right and wrong uses of private enterprise.

Consider the opinions of men and women whose work affords opportunity for philosophical reflection on morality - the two most prominent being academics and ecclesiastics. How many among them would be willing to attempt a moral defence of private property and free markets? How can the institutions of liberty survive and flourish so long as the moral opinion makers are so overwhelmingly sympathetic to only one side of the debate?

A secure liberty must be based on a firm moral foundation, and yet the moral terminology of contemporary political debate is often secretly at war with liberty. This represents more than linguistic confusion; it represents a danger to the proper exercise of virtue. Advocates of capitalism and economic liberty can and must assume the moral high ground.

So long as economic liberty - and its requisite institutions of private property, free exchange, capital accumulation, contract enforcement - is not backed by a generally held set of norms by which it can be defended, it cannot be sustained long-term. Into the moral vacuum left by capitalism's defenders rush notions hostile to economic liberty.

The link between economic liberty and public morality is more than suggestive; it is direct. notions drawn largely from the values and vocabularies of interventionism and socialism.

The link between economic liberty and public morality is more than suggestive; it is direct. A historian would be hard pressed to identify a society with a deep and unyielding respect for the sanctity of private property that did not also have a relatively intact culture. Similarly, cultural decline, family

collapse, and widespread secularisation have historically corresponded with statism and socialism. The moral defence of liberty must be a defence of the natural order of liberty. Privileges, government, and the collective are not entirely separate, but they are essentially different in that they rest on pre-emptive coercion. In the terminology of the public philosopher Albert Jay Nock, what is done by political means should not be confused with what is done by social means.

A moral argument for economic liberty should not shrink from its own logical implications, however politically unfashionable. An imperative against theft and in favour of the security of private property must also suggest caution about taxes above the minimum necessary for the rule of law. Freedom of contract must include the freedom not to contract. Toleration of individual differences must include tolerance for the inequality in wealth that

will be the unavoidable result. It is sometimes said that no one dreams of capitalism. This too must change. Rightly understood, capitalism is the name for the economic component of the natural order of liberty. It means wide ownership of property, fair and equal rules for all, economic security through prosperity, strict adherence to the boundaries of ownership, opportunity for charity, wise use of creativity, growth, improvement, prosperity, abundance, and most of all, economic application of the principle that every human person has dignity and should have that dignity respected. It is a dream worthy of our spiritual imaginations.

Robert A Sirico

Father Sirico is president of the Acton Institute for the study of Religion and Liberty in Grand Rapids, Michigan, US. This article is drawn from his latest monograph "The Moral Foundation of Liberty" (Institute for Economic Affairs, 1994).

Messing about in boats

Who will be the next bigwig to be piped aboard the Alexander, Greek billionaire John Latsis's gln palace? Former US President George Bush, plus more than a dozen relations and friends, have already been to sea and Russian President Boris Yeltsin stayed on the Alexander when he turned up at Corfu's European Union summit. The word is that Prince Charles accompanied by Princess Harry and William are next in the queue.

Latsis's legendary hospitality consists of lending his guests his yacht, equipped with helicopter, and leaving them to chart their own course.

For Prince Charles, that could mean a stop at Mount Athos, the peninsula off the northern Greek coast inhabited only by Orthodox monks - and indeed only males of any species. The theocratic republic, which enjoys autonomy from Athens, attracts an increasing number of western visitors with a mystical bent. Sounds like just the place for Prince Charles.

Sun, sea, and dung

A Cologne judge has refused to order a travel company to grant a family a 50 per cent rebate on what they claimed was a particularly malodorous north African holiday.

The judge instructed them - as any well-travelled German should have already known - that camel dung and seaweed were not unpredictable hazards of Tunisian beaches.

Roll over Carnegie

The UK economy must be on the mend - judging by the number of new (adventures being started by Peter de Savary, the buccannery yachtman-cum-businessman who found the last recession more buoyant than most.

Last week Observer reported that de Savary, who was piped at the buoy in the 1983 America's Cup by Australia's Alan Bond, was planning to invest upwards of £1.5m on a boat to take part in a new international race being planned by the super smooty Royal Yacht Squadron and the New York Yacht Club. Now comes news that he is planning to reopen the 100-room Skibo Castle, Andrew Carnegie's old home in the Scottish highlands, as an upmarket leisure resort.

The local enterprise council has clipped in £1.5m towards the £15m that de Savary is planning to spend on upgrading the property to the style the US steel magnate is accustomed to when entertaining the likes of Edward VII and the Rockefellers. It will, of course, have a few extra facilities such as a fully equipped gymnasium, golf course and beauty therapy centre. No word yet on the cost of membership, but de Savary is planning to milk the

OBSERVER



great steel man's name for all it is worth by christening his latest baby the Carnegie Club.

Dirty linen

In a burst of would-be efficiency, the Bank of England has for the first time in its history put the building's cleaning contract out to tender. None of the English Mrs Moppes being deemed suitable, the job of dusting down the gold bullion has been farmed out to Denmark's International Service Systems.

If this welcome trend continues, perhaps De La Rue will be allowed

to have a go at printing Britain's bank notes.

Daley round

Twenty six years of penance is obviously deemed to be sufficient. Chicago is being allowed to host a Democratic National Convention once again which should give the current Mayor Daley a chance to do something towards settling the family record straight.

For it was when his father, "Boss" Daley, was in the mayoral office that city police charged unarmed Vietnam war protesters at the infamous 1968 gathering.

Daley junior has enjoyed nothing like the immense political power wielded by his father, but on this occasion he did have a man in the right place. With his former campaign manager David Wilhelm now chairman of the Democratic National Committee, Daley's city was more than well-placed to secure the prize in 1996. But was he a bit optimistic when he forecast, echoing the words of the late 1980s protesters, that the "whole world will be watching"?

Boxed in

The disgraced former president of Brazil is doing his best to resuscitate his old party - but it's nothing if not a challenge. With the National Renewal party trailing at

under 1 per cent in the opinion polls, Fernando Collor de Mello, who has been banned from office until the year 2000, made an appearance on TV to bid the flagging campaign of the party's next choice for president, Walter Queiroz. No doubt mindful of a Brazilian law that forbids anyone but the candidate himself appearing in a party political broadcast, Collor made do with just a photo and a "state mandarins" who had contributed to his downfall.

That was still too much for the courts, who warned him that any repeat sallies on to the box would cost him a year in jail. But he must nearly have stumbled over Queiroz on the court room steps. The latter has been expelled from the party following allegations that he "forgot" to declare \$1.7m in income tax returns, but is fighting to be reinstated.

Well balanced

No one can say that former Soviet enterprises released from the shackles of communism are not targeting themselves ambitious targets. Passengers on Uzbekistan Airways' regular service between London and Tashkent must be reassured to read a new year wish from Gani Rafikov, the company's director-general: "That the number of take-offs be equal to the number of landings."

Unwrapping an east European strategy

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مكتبة ابن الاصل

Record half-year result for May Department Stores

the next five years, ■■ cost of \$4bn.

At the end of last month it significantly expanded its shoe retailing operation by buying all 679 shoe stores owned by Kobacker and The Shoe Works, two related companies based in Columbus, Ohio.

Yesterday **Barr**, said **Barr** had opened a Famous-Barr in **Union Square Mall**, St. Louis, during the quarter, and that another 14 department stores were being bought by the **Barr** end.

Barr Lord & Taylor, four Filene's, two Foley's, one Hiecht's, **Barr** Robinsons-May, and one Famous-Barr.

Dell seeks return to notebooks

■ lower-priced product line, available only in the US ■

present, **IBM** **costs** at \$1,399. The basic Latitude uses conventional notebook-computer hardware but allows users to plug in the floppy disk drive and **operate** a **modem** battery, offering up to 10 hours of use.

Dell has an opportunity to make a comeback in the notebook market from leading suppliers, such as Compaq and IBM, **and** **continue** to keep up with demand, analysts say.

However, Dell's re-entry may be hampered by the company's recent withdrawal from retail sales channels. It now sells only via mail and telephone.

up ahead

performance in early

Singapore banks lifted by island's buoyant economy

Holvis cuts target after mid-term deficit

Moivis, the troubled Swiss nonwoven fabric and distribution group, suffered a Sfr4.5m (\$3.4m) net loss in the first half, compared with a Sfr19.6m profit in the same period of last year. It has reduced its operating profit forecast for 1984 from Sfr20m to Sfr20m.

Turnover was down 11.6 percent, mainly as a result of the weak last year of the specialty papermaking business.

The group has been hurt by price pressure in the traditional markets for non-wovens and papers, and is having problems with volume production of higher value fabrics for the medical market.

Operating profit in the nonwoven division fell 85 per cent in the first half to Sfr17.7m, dragging down group operating profit 41 per cent to Sfr12.3m.

Static six months at Sembawang

Projects that Sembawang is currently involved in include a \$350m contract for an offshore drilling and production facility in Indonesia and a \$200m contract to convert a Netherlands-owned bulk carrier into the world's largest pipe-laying vessel.

Sembawang said that its latest results included a \$23.6m gain from the disposal of some long-term investments. It said the group expected to maintain its present performance in the second half of the year.

Hawker Siddeley Canada in loss

Hawker would lose a lot for 1994, said Mr. Moore, but "it's well on the way in repositioning the company for the long term".

- SNC-Lavalin, a Canadian-based international engineering and construction group, posted sharp increases in second-quarter profit this year.
- The group thanks its improving margins and lower interest rates.

First-half profit was C\$14.7m, or 94 cents a share, up from \$8.8m, or 60 cents, a year earlier, on revenues of \$397m, a rise from \$367m.

Second-quarter profit equaled 57 cents, against 43 cents, on revenues of \$217m, from \$194m.

Year	On Demand and Night		On Demand and Day		On Demand and Evening	
	Price (p/kWh)	Price (p/kWh)	Price (p/kWh)	Price (p/kWh)	Price (p/kWh)	Price (p/kWh)
1990	13.21	13.52	13.52	13.52	13.52	13.52
1991	13.52	13.52	13.52	13.52	13.52	13.52
1992	13.52	13.52	13.52	13.52	13.52	13.52
1993	13.52	13.52	13.52	13.52	13.52	13.52
1994	13.52	13.52	13.52	13.52	13.52	13.52
1995	13.52	13.52	13.52	13.52	13.52	13.52
1996	13.52	13.52	13.52	13.52	13.52	13.52
1997	13.52	13.52	13.52	13.52	13.52	13.52
1998	13.52	13.52	13.52	13.52	13.52	13.52
1999	13.52	13.52	13.52	13.52	13.52	13.52

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INTERNATIONAL COMPANIES AND CAPITAL MARKETS

Treasuries edge higher ahead of \$40bn refunding

By Patrick Hoverson
in New York and Antonio
Sharpe in London

US Treasury prices edged higher as the maturity range yesterday morning as investors prepared for this \$40bn quarterly refunding.

By midday, the benchmark 30-year government bond was up 1/8 of a cent, yielding 7.99 per cent. The two-year note was also slightly firmer at 1/8 of a cent, yielding 6.99 per cent.

GOVERNMENT BONDS

Trading activity was very light at the opening, with participants reluctant to commit funds in the market ahead of the refunding round.

The refunding began today with the sale of \$17bn in three-year notes. This will be followed by \$10bn in 10-year notes tomorrow and \$11bn in 30-year bonds on Thursday.

Last week's strong July employment report raised hopes in the bond market that the Federal Reserve will slow the economy down, and the half of another monetary policy tightening was only a distant prospect. Investors were more cautious than in the planning of their strategies for the Treasury market.

European government bond markets were quiet as investors focused on the US Treasury refunding. In the absence of meaningful investor activity, the market continued its debate on whether Germany

would continue to cut interest rates in the wake of buoyant economic data.

Salomon Brothers took the view that the strong German economy could mean that the Bundesbank would not cut rates further in this cycle, turning its attention instead to inflation worries.

However, Kidder Peabody Securities said the Bundesbank was likely to cut interest rates after Germany's federal elections in October.

On Friday, the September contract of the bond future traded in a narrow range before rising 1/8 of a cent in the afternoon to 114.10.

Analysts noted that a widening in the yield spread between UK gilts and bonds, which reached 175 basis points on Friday, prompted some switching from bonds to gilts. This widened the spread in tighter again to 150 basis points.

Gilts rose as the release of weaker than expected producer prices data for July, but, surprisingly, shrugged off a rise in consumer prices in June.

Mr Simon Briscoe of S.G. Warburg said the Bank of England was likely to interpret the leading data as a clear indication that the economy was still growing and that the Bank would not be holding an auction this month.

In the meantime, news that the Bank was raising \$700m through the sale of existing bonds strengthened the view that it would not be holding an auction this month.

On Friday, the September long-gilt future edged higher to 114.10 in the afternoon in small volume of 31,300 lots.

Landesbank taps dragon sector

By Corinne Middelmann

The Eurobond market saw a sprinkling of new deals yesterday, with the ongoing Eurobond market expected to remain active for some time.

Germany's Landesbank Rheinland Pfalz tapped the dragon bond market for \$300m of three-year bonds via joint leads Goldman Sachs and Lehman Brothers.

The bonds were deemed adequately priced, yielding 10.6 per cent over the when-issued US Treasury note at their 89.922 re-offer price.

INTERNATIONAL BONDS

One of the lead managers said he placed some 95 per cent of his \$100m allotment among eastern Asian investors. "We saw good demand from that region, following the borrower's extensive media in July," he said.

The firm sector saw \$150m of

NEW INTERNATIONAL BOND ISSUES

Issuer	Amount	Coupon	Price	Maturity	Yield	Spread	Bank
US Treasury	100	6.75	100.00	10/15/97	6.75	0.00	US Treasury
US Treasury	100	6.75	100.00	10/15/97	6.75	0.00	US Treasury
US Treasury	100	6.75	100.00	10/15/97	6.75	0.00	US Treasury
US Treasury	100	6.75	100.00	10/15/97	6.75	0.00	US Treasury
US Treasury	100	6.75	100.00	10/15/97	6.75	0.00	US Treasury
US Treasury	100	6.75	100.00	10/15/97	6.75	0.00	US Treasury
US Treasury	100	6.75	100.00	10/15/97	6.75	0.00	US Treasury
US Treasury	100	6.75	100.00	10/15/97	6.75	0.00	US Treasury
US Treasury	100	6.75	100.00	10/15/97	6.75	0.00	US Treasury
US Treasury	100	6.75	100.00	10/15/97	6.75	0.00	US Treasury

10.6 per cent four-year bonds for Western Europe which attracted some buying by investors in the region, Germany and Ireland, according to an official at one of the joint leads. The deal was lead-managed by SBC and WLB.

Despite the recent political upheavals in Italy, which caused turmoil in currency and bond markets, investors are more positive on the prospect of convergence by high-yielding bonds, he said. Moreover, they are attracted by the high coupons in these markets and offer.

The deal, which is targeted

mainly at the large Latin American commitments: \$500m for senior lead managers and \$500m for lead managers.

These levels pose problems for banks at or close to their country limit as a result of underwriting last year's loan.

The deal, which is targeted

at European and US investors, had been widely pre-marketed, helped by the SEC's Rule 144a, which allows institutional investors, said the lead manager.

Although emerging markets remain attractive by expectations of a further interest rate rise in the US, sentiment has been buoyed in recent weeks by growing optimism over the outcome of the Mexican elections and the region's promising economic fundamentals.

Kuwaiti bank reports KD26m interim profit

National Bank of Kuwait (NBK), the country's largest commercial bank, reported a profit after provisions of KD26m for the first six months of 1994, higher than the KD24m reported for the first six months of 1993.

There was no comparison with the corresponding 1993 period because this is the first year Kuwaiti banks have been required to report half-year earnings under new central bank regulations. However, the result is in line with 1993 full-year profits of KD26m.

The group's total assets rose to KD3,535bn as of June 30, 1994 from KD3,247bn at the end of calendar 1993. The loan portfolio grew to KD1,183bn from KD1,111bn.

On Friday, the September long-gilt future edged higher to 114.10 in the afternoon in small volume of 31,300 lots.

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Syndicated loan for Spain

By Antonio Sharpe

Volatile conditions in the bond markets, its traditional funding source, have prompted the Kingdom of Spain to return to the syndicated loans market to secure liquidity.

The \$500m five-year revolving credit facility, which is being arranged by Chemical Bank, comes one year after the Kingdom of Spain's return to the syndicated loans market to secure liquidity.

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Goldstar merger meets opposition

By John Burton in Seoul

Shareholders in Goldstar, South Korea's second largest electronics company, are opposing plans to merge with loss-making LG Telecom, a sister subsidiary of the Lucky-Goldstar group.

"It's one of the first times that institutional shareholders have complained about a corporate merger in Korea," said Mr Andrew Holland, head of research at BZW Securities in Seoul.

Corporate mergers are usually non-controversial affairs in Korea because of the close cross-holdings arrangements among subsidiaries of the country's main conglomerates and the normally passive role of shareholders.

Goldstar said the merger, which will occur at the beginning of 1995, will strengthen efforts to enter the multimedia business.

Shareholder objections focus on two areas. One is that the merger terms, under which 10 common shares of Goldstar Telecommunications will be traded for four Goldstar common shares, are too generous

considering the telecommunications company's large debt/equity ratio of 1.68 per cent.

The other complaint is that the merger threatens to slow down what has been a rapid rise in profit growth for Goldstar during the past 18 months. Goldstar reported net profits of Won65.6bn (\$81.7m) last year and Won79.2bn for the first half of 1994.

In contrast, Goldstar Telecommunications had a loss of Won23.7bn last year and an estimated loss of Won10bn for the first half of 1994.

The losses result from interest payments on its debt of Won418bn and price-cutting in the heavily competitive area of telephone equipment, which is the main business of Goldstar Telecommunications.

Analysts believe Goldstar shareholders will not be able to stop the merger but demand that the company repurchase shares, which could improve its debt/equity ratio.

Shareholder profits. The merger will be approved at a shareholders' meeting on August 29. The largest shareholder in Goldstar is Lucky, the group's petrochemical unit, with a 6 per cent stake.

Macquarie Bank converts London office to branch

Talk in Sydney

Macquarie Bank, the Sydney-based investment bank, had an application for a UK banking licence approved. As a result, the bank said it was formally converting its London office to UK branch status from yesterday.

The bank, which is owned by more than 40 institutions, with the UK's Hill Samuel holding the largest single stake, has been putting increased emphasis on international expansion recently.

London is its largest market outside Australia, and Mr Allan Macquarie, director, said yesterday that the current aim was to develop a "major European market" in London, including Spain, Italy, Denmark, Finland and Norway.

Macquarie has had a limited presence in London since its acquisition of the UK's Hill Samuel holding the largest single stake, has been putting increased emphasis on international expansion recently.

BOND PRICE

Coupon	Red	Price	Day's	Yield	Week	Month
			change		ago	ago
Australia	8.000	98.040	-1.080	9.48	9.57	9.74
Belgium	7.250	94.040	-0.180	7.87	7.96	7.92
Canada	6.800	98.040	-0.120	6.92	6.92	6.92
Denmark	7.000	102.040	-0.020	6.82	6.80	6.35
France	6.500	98.040	-0.200	6.81	6.83	6.80
Germany	6.500	98.040	-0.200	6.81	6.83	6.80
Italy	6.500	98.040	-0.200	6.81	6.83	6.80
Japan	6.500	98.040	-0.200	6.81	6.83	6.80
Netherlands	6.500	98.040	-0.200	6.81	6.83	6.80
Spain	6.500	98.040	-0.200	6.81	6.83	6.80
UK Gilts	6.500	98.040	-0.200	6.81	6.83	6.80
US Treasury	6.500	98.040	-0.200	6.81	6.83	6.80
EU (French Govt)	6.500	98.040	-0.200	6.81	6.83	6.80
London (New York mid-day)	6.500	98.040	-0.200	6.81	6.83	6.80
Yields (floating rate) on 10.12.93 per cent payable by next business day						
US Treasury	6.500	98.040	-0.200	6.81	6.83	6.80
EU (French Govt)	6.500	98.040	-0.200	6.81	6.83	6.80
London (New York mid-day)	6.500	98.040	-0.200	6.81	6.83	6.80

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ITALY

100% ITALIAN GOVT. BOND (STP) FUTURES

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Raised offer wins approval but depends on Takeover Panel decision

Great Southern falls to SCI

By Davies

Service Corporation International's offer of 890p a share was approved by the Takeover Panel yesterday, but the deal will only proceed if the company's shareholders approve the takeover. The offer, which was made by SCI, was a 25 per cent premium on the 775p offer made by the Field family. The offer was made by SCI, which is a US company, and the Field family, which is a UK company. The offer was made by SCI, which is a US company, and the Field family, which is a UK company. The offer was made by SCI, which is a US company, and the Field family, which is a UK company.

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SCI can increase last Tuesday's offer. It is a suitably controversial offer, but it is a takeover. The offer was made by SCI, which is a US company, and the Field family, which is a UK company. The offer was made by SCI, which is a US company, and the Field family, which is a UK company.

claimed a united front against the US aggressor. But as the prices rose, the Field family decided they would sell out. It was just a question of price. SCI always said it would pay a significant premium for a recommended offer, and Mr. Field said yesterday that he was delighted that the Field family had backed his third cash price.

Signet criticised by US holders

By Tim Burt

Signet, the jewellery group formerly known as Barmen, was yesterday criticised by disaffected shareholders for failing to address their demands for a capital reconstruction. The San Francisco-based Delta Dividend Group said it would press ahead with plans to acquire the company, and to restructure it, after receiving an "adequate response" to proposals for a restructuring and repayment of dividend arrears.

Acatos shares jump 19p on link-up with supplier

By Andrew Bolger

Shares in Acatos & Co. rose by 19p to 385p after the edible oils and fats manufacturing group said it had reached agreement with an international supplier to take a 22.5 per cent stake in the company. The supplier, which is a UK company, is a major supplier of edible oils and fats to the UK market.

Analysts said one possible candidate was Archer Daniels Midland, the US agribusiness group which supplies the UK's biggest refinery in London. The supplier, which is a UK company, is a major supplier of edible oils and fats to the UK market.

In the same way, Mr. Ian Hutchison, chairman of the group, said he was not in a position to reach an agreement with potential institutional investors. The group's weekend statement said it was proceeding with a planned reconstruction of the 37.1 per cent shareholding currently controlled by Archer Daniels Midland Limited, a private company which owns the shares previously owned by Mr. Hutchison.

Tiphook dismisses rights issue speculation

Tiphook, the debt-laden transport leasing group, will report its annual results on Thursday. The figures are expected to show a sharp decline in profits, but the company has dismissed speculation that it might announce a rights issue. The company has a long history of financial difficulties, and its shares have fallen from 38p to 30p in the last year.

years and a rights issue at this stage was "out of the question". The company has a long history of financial difficulties, and its shares have fallen from 38p to 30p in the last year. The company has a long history of financial difficulties, and its shares have fallen from 38p to 30p in the last year.

London City launches revised offer for Towles

London City Equities has made a revised offer of 115p a share for Towles, the clothing manufacturer. The offer is a 25 per cent premium on the 92p offer made by the company's shareholders. The offer was made by London City Equities, which is a UK company, and Towles, which is a UK company.

The offer for the other class of shares remains at 115p a share. The offer was made by London City Equities, which is a UK company, and Towles, which is a UK company. The offer was made by London City Equities, which is a UK company, and Towles, which is a UK company.

Sales expansion and cost control behind Inspec rise

By Tim Burt

Inspec Group, the specialty chemicals company which came to the market earlier this year, yesterday announced a sharp increase in first-half profits following strong volume growth and tight cost controls. The company's profits rose by 25 per cent to 2.5m, and its sales rose by 15 per cent to 12.5m.

On a pro forma basis - assuming Allico had been acquired at the beginning of the year - operating profits rose 30 per cent to 3.5m. Mr. Hollowood said the improvement had been underpinned by strong organic growth in its three core coating intermediaries, synthetic lubricants, and Allico's specialty acids.

John Hollowood plans investment in UK and US. The company's profits rose by 25 per cent to 2.5m, and its sales rose by 15 per cent to 12.5m. The company's profits rose by 25 per cent to 2.5m, and its sales rose by 15 per cent to 12.5m.

Where there are necks there is money

Tim Burt reports on Tie Rack's airports-based international growth plan

Swiss rail commuters are about to get a taste of British retailing. Tie Rack, the specialist neckwear and fashion business, is opening a store at the Zurich railway station. The company has a long history of financial difficulties, and its shares have fallen from 38p to 30p in the last year. The company has a long history of financial difficulties, and its shares have fallen from 38p to 30p in the last year.



Roy Bishko: 'If Tie Rack was a single product company, we would have long since passed away'

The group was almost undone by a poorly controlled US expansion plan which left it with losses, expensive stores in the wrong places, and hefty rationalisation charges. The group's losses were 2.5m, and its sales were 12.5m. The group's losses were 2.5m, and its sales were 12.5m.

him as the company's saviour. "He screwed down the costs and improved the cashflow," according to one analyst. "I don't know where the company would be without him."

Mr. McGinley's caution has proved an ideal foil to Mr. Bishko, and their double act has ensured Tie Rack's growth. Despite their different styles, both are committed to further expansion in airports, where turnover is estimated at more than £1,000 per sq ft, and to exploiting new markets in Asia.

Waterhouse boardroom shuffle

Shares of Waterhouse Group, the US-based office fittings company, yesterday jumped 17p to 59p after Quest Gold, a Hong Kong registered company, acquired a 29.9 per cent stake at 65.35p per share. The seller was Landworth Investments, a company associated with Mr. Robert Ackland, Waterhouse chairman, and Mr. Andrew Wadsworth, and Mr. Denis Ryan, both directors. All three have resigned from the board.

Mr. McGinley's caution has proved an ideal foil to Mr. Bishko, and their double act has ensured Tie Rack's growth. Despite their different styles, both are committed to further expansion in airports, where turnover is estimated at more than £1,000 per sq ft, and to exploiting new markets in Asia.

at the trust's inception in November. The FT-SE-Accumulation Index fell by 11.55 per cent during the same period. Revenue for the period amounted to £12.2m for earnings of 4.23p per share. A second interim dividend of 1.0p brings the total to date to 5p.

Equifax seeks recommendation

Equifax, the US credit information business, said yesterday that it continued to seek the recommendation of the UK's Financial Times. The company's profits rose by 25 per cent to 2.5m, and its sales rose by 15 per cent to 12.5m.

Save & Prosper net value up 7%

Save & Prosper Linked Investment Trust had a net asset value of 121.33p on June 30, a 7 per cent rise on the comparable figure of 113.40p at end-June 1993. Net asset value per income share was unchanged at 100p.

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Mid Kent accepts Ofwat price controls

Mid Kent Holdings said price controls imposed by its Mid Kent Water subsidiary by Ofwat, the water industry's regulatory body, fell short of what it wanted but that it had decided to accept the limits. "Although the K factors determined fall short of those considered desirable to fulfil services to customers, we have decided to accept the determination," it said.

Bowthorpe expands with £4.4m buy

Bowthorpe, the electrical and electronic components group, purchased the business and certain net assets of Boblin Instruments from Metric (Netherlands) for £4.4m cash. Boblin's products are used to measure flow and deformation of materials such as paint and plastic.

at the trust's inception in November. The FT-SE-Accumulation Index fell by 11.55 per cent during the same period. Revenue for the period amounted to £12.2m for earnings of 4.23p per share. A second interim dividend of 1.0p brings the total to date to 5p.

Johnson Fry Second Utilities Trust

Johnson Fry Second Utilities Trust had a net asset value of 75.7p per ordinary income share at June 30. Total shareholder's funds at that date amounted to £2.2m.

Partco pays £2.4m for distributor

Partco Group, the distributor of parts for cars and light trucks, paid £2.4m for the distributor of parts for cars and light trucks. The company's profits rose by 25 per cent to 2.5m, and its sales rose by 15 per cent to 12.5m.

Cray Electronics wins cable business

Cray Electronics announced that its specialist computer software division had won orders totalling more than £5m from a number of the leading franchise operators in the UK, giving it a 40 per cent share of the UK cable TV market.

AMBERLEY GROUP

received acceptances in respect of 12.5m new ordinary shares representing 10 per cent of the rights offer. COPYMORE has sold the distribution division to its Birmingham-based subsidiary, International Systems International, for £750,000 cash and goodwill and some £500,000 for stocks.

Halifax and has planning permission for a showroom and workshop. An investment of some £1m is involved in premises and working capital.

ELECTROCONNECT, a subsidiary of Prestwick Holdings, is to be bought for £1m by a management buy-out team backed by Murray Johnstone and Scottish Enterprise. EXCALIBUR: Recent rights received acceptance in respect of 12.5m shares, representing 10 per cent of the offer of 15m shares.

GREEN PROPERTY

an advanced stage in negotiations to buy companies that own the Nassau building in Dublin, valued at £20m (£19.7m). The purchase would involve the issue of up to 4.35m shares at 150p per share. HIGH GOSFORTH Park: Agreed £5m from Northern Racing declared wholly unconditional. LOPEX's Toronto-based advertising subsidiary Miller Myers Bruce Dallas Costa has filed a bankruptcy petition under Canadian law. In the first half

to this year the subsidiary incurred a £175,000 pre-tax loss.

PARTITY, formerly Caring, has bought Class, an IT training and consultancy. The consideration of £500,000 will be paid by £265,000 cash, £157,000 of loan and the issue of 55,000 shares. RADIUS is acquiring Avalon Systems, a Leicester-based computer software company. The total consideration of £248,000 is to be paid by the issue of 547,945 RADIUS shares at 38.5p each, loan notes

to the value of £250,000 and the balance in cash out of Radius's resources.

SIMON ENGINEERING has purchased the remaining 19 per cent minority interest in Sutton Bridge Wharfage from Lands Improvement Group for £500,000 cash. WIDNEY has raised £500,000 with a placing of 5m shares at 10p. The proceeds will be used to part-fund the £1m acquisition of Applied Digital Devices. WILTON GROUP has changed its name to Pacific Media.

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FINANCIAL TIMES

COMPANY NEWS: UK

Trade Indemnity sees business failures fall

By Simon Davies

Trade Indemnity, the credit insurance company, yesterday demonstrated the impact of an improving economy, as gross claims against policies from its continuing operations fell by 10 per cent in the first half of 1994.

The group also notched interim profits, but emphasised its confidence in the late recovery by declaring an interim dividend of 0.4p, the first interim payment since 1990.

Trade Indemnity has mirrored the strength of the UK economy, because of its broad exposure to business failures. The company said that business failures had dropped by 42 per cent in the first half of this year, and gross claims paid from continuing operations fell by a similar proportion from £61.4m to £55.7m.

In addition, Trade Indemnity reported an increase in gross premium income to £74.4m (£71.3m), up 4.3 per cent from 1993.

Mr Victor Jacob, managing

director, said that failures and claims were falling, and while demand for the company's products might be expected to be muted following a recession, it was, in fact, increasing.

However, the House of Lords' Appeal on the Investors' Compensation Scheme, which was underwritten by Trade Indemnity, has resulted in an additional £7.5m provision against further claims.

The Court decision could result in additional claims resulting from failed pensions claims given by failed independent advisers covered by the ICS. The company is planning to appeal.

Further negative news came from the company's investment portfolio, which experienced a 10 per cent decline in value during the first half of the year, reflecting the weakness in bond and equity markets.

Investment income on the £100m portfolio fell from £2.1m to £1.9m, but as a long-term investor, Trade Indemnity will not be required to make provisions against the portfolio at the year end.



Victor Jacob, managing director of Trade Indemnity, says the company's products are increasing

Trans World accepts Emap offer

By Graham Diller

Trans World Communications, the Trans World radio group, yesterday announced it had accepted the £71m bid from Emap, the media concern.

Directors, who had led a fierce battle to maintain USM-quoted Trans World independence, grudgingly accepted the deal in the wake of the High Court ruling last week that the decision by the Radio Authority, the industry regulator, to sanction the deal should be upheld.

The ruling, which could spark a widespread rationalisation of the commercial radio industry, appeared to expose a loophole in the 1990 Broadcasting Act.

By acquiring Trans World, Emap will limit its radio licence from three to eight, but more than present regulations permit. It plans to set up a joint venture with Schroders, its main shareholder, to "warehouse" the licences.

Trans World yesterday warned shareholders that they may be left with a limited market for their shares if they did not accept Emap's final offer of 181p per share.

Mr Kirkeham said the trading outlook was good, with a steady recovery in the housing market. He predicted that house prices would rise by 3 per cent during the year, while housing transactions would grow by 6 to 7 per cent.

The society's total mortgage lending dropped to £1.3bn (£1.4bn), and net sales receipts fell to just £1.1bn (£1.2bn).

The society said that both mortgage and savings business had been "far more price-competitive than expected".

The gross margin of capital in 1993 grew by 0.4 percentage points to 7.4 per cent, while the solvency ratio of capital to risk-weighted assets rose to 13.1 per cent (13.7 per cent).

Mr Donald Kirkham, the society's chief executive, said it had built on the good results of last year "notwithstanding difficult market conditions".

Weir's selective strategy pays off



TACKLING ASIA'S TIGERS

Along with all UK engineering company executives in Asia, Mr Gerry Malley believes there are tremendous opportunities across the region. "Asia is bubbling over," he says. But, as one would expect from the general manager (Asia) of Weir Group, Mr Malley is not letting euphoria go to his head.

"We made a decision early on to do the hard things," he says. "We are very selective in what we bid for and will not be all things to all men; there are areas where we don't compete."

Malley than try and sell what Mr Malley calls "high-tech" products, which are made in Asia.

Mr Malley, who has been based in Asia for 11 years, says he is "not at all" trying to exploit opportunities in the region.

"There are huge differences between countries and within countries. With China, for example, you have to look at every province differently. But some companies don't focus on an initial target - they just spill around Asia without identifying opportunities."

The selective strategy is already paying dividends for Weir. A strong export performance in the Pacific Rim was one of the bright spots for the group last year, when pre-tax profits slipped from \$39.2m to \$37.5m overall; Weir Pumps won orders for pumps and related equipment from power stations at Zoukuan in China, Budge Budge in Calcutta, and the Uichin nuclear power plants in South Korea, while Hopkinson's, Weir Group's valve company, secured a contract for a \$2.4m valve for the Hong Kong power station.

Weir Pumps' success and also won contracts in its own right for power stations including Shajiao in China and Tasean in South Korea.

This year there have been further successes worth at least \$10m from the power generation industry in the region for Hopkinson's, Weir Pumps and recently-acquired Darchem.

Britain's engineering companies emerge from recession, the short-term domestic outlook looks reasonably bright. But for many, prospects for sustained long-term growth lie beyond the mature markets of the UK, continental Europe and North America. Returns will be higher in the fast-growing developing and industrialising economies of Asia - China, the Asian "tigers" and countries still only on the edge of the commercial map such as Vietnam and Burma. In the first of a summer series, Andrew Baxter looks at how UK engineering companies are gearing up for this growth and talks to some of their top executives working in the region.



Gerry Malley: after 11 years' experience, he can see some of the mistakes being made by UK companies looking for business

Engineering, which is supplying equipment for a \$2m contract in Hong Kong power station, Weir Pumps' success and also won contracts in its own right for power stations including Shajiao in China and Tasean in South Korea.

This year there have been further successes worth at least \$10m from the power generation industry in the region for Hopkinson's, Weir Pumps and recently-acquired Darchem.

to be patchy, as we all are here," he says. "The US are strong in Taiwan and the Philippines but are not making an impact relative to their size, and the Japanese are being strangled by the yen. We've seen a lot less of them in the region over the last four to five years."

There is room for Weir to expand, he says. The Asia-Pacific region, excluding India, accounted for 15 per cent of sales last year, and Mr Malley sees no reason why it should not be 25 per cent in three to five years.

To achieve this, a number of changes have been made. Mr Malley, formerly with Weir Pumps, has taken over responsibility for the region stretching from Sri Lanka to New Zealand. He hopes to use Weir Pumps' experience to help other parts of the group generate more sales, but without reducing their independence. Weir Pumps comprise 70 per cent of sales in the region, but a better balance between pumps and other products is achievable, he says.

Mr Malley's role even helps the group win contracts "packages" involving more than one business - for example, pumps and valves. Allied to this is a stronger presence on the ground. The valves business will soon have its own local sales manager based, like Mr Malley, in Hong Kong and focusing on China and Korea. Strachan & Henshaw appointed its own sales manager in May, also based in Hong Kong. A Singapore office was reopened last year after a gap of a decade. The regional base will remain in Hong Kong, but Mr Malley says he is "looking back" at the opportunities in south-east Asia. "People like to have you on the doorstep," he says.

Weir is bidding to supply pumps, valves and bulk-handling equipment for the planned Tasean power station in Singapore, and Mr Malley sees further opportunities in the water and sewage sector as the island state upgrades its housing.

Indonesia represents a very large market opportunity, he says, and he remains hopeful about Malaysia - although supplying equipment for public power contracts will have to wait for the end of the transition from Suharto.

European competitors tend to be more focused on the home market, he says.

Pillar public offer 5 times subscribed

The public offer of shares in Pillar Property Investments was subscribed five times, Barclays said today.

A placing of 80m shares at 160p apiece to institutional and other shareholders, valuing the group at £170m, was announced last month; 15m shares were subject to a clawback under the terms of the public offer. In the event, applications were received for 74.9m shares and allocations have been made.

Investors applying for 200 and 400 shares will receive 200 and 400 shares; 600 and 1,000, 300 shares; 1,500, 375 shares; between 2,000 and 15,000, 20 per cent; between 20,000 and 30,000, 17.5 per cent; and for more than 30,000, 15 per cent.

Dealings will commence on August 16.

See Lex

Woolwich edges ahead in competitive market

By John Gapper, Banking Editor

The competitive pressure in the UK mortgage market was yesterday illustrated when Woolwich, the third largest UK building society, reported a 1.8 per cent improvement in first half operating profits from £10.1m to £10.4m.

First half profits rose to £10.4m (£9.9m) as provisions for bad and doubtful debts fell to £1.1m (£1.2m). The society's general reserve rose to £1.3bn (£1.1bn), and gross capital rose to £1.7bn (£1.4bn).

Interest income rose only slightly to £249m (£241m) while income from other sources rose to £275.3m (£275.3m). Operating profits were reduced by a rise in administrative expenses to £168m (£158m).

Mr Donald Kirkham, the society's chief executive, said

it had built on the good results of last year "notwithstanding difficult market conditions".

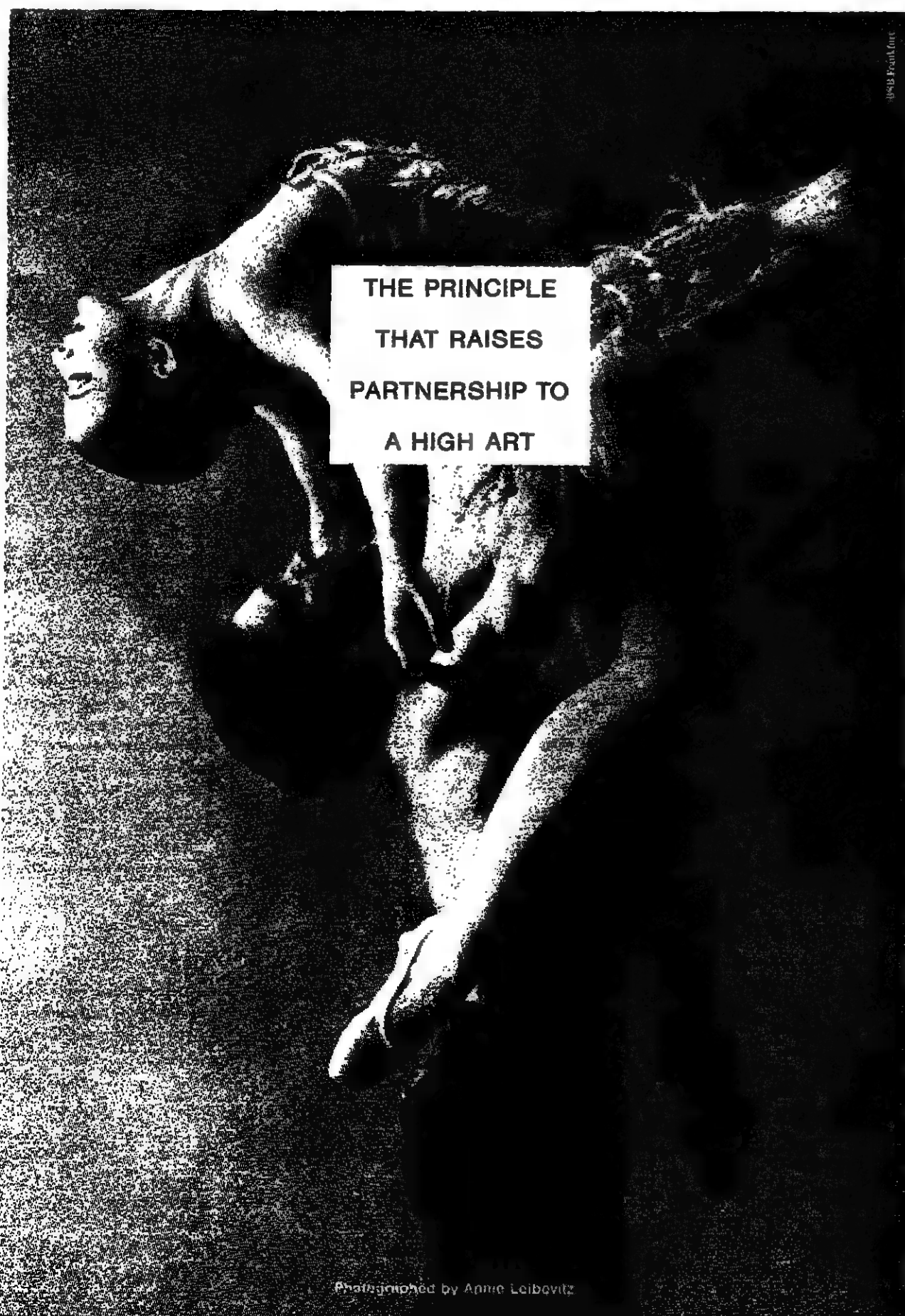
He said that the mortgage market had been characterised by "intense competition".

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BUSINESS AND THE LAW

Export ban illegal even if not applied



EUROPEAN COURT

A clause prohibiting exports by its very nature restricted competition even if it was not actually implemented by the parties, the Court of First Instance held recently. The Court also found fines could be imposed on undertakings even if they were not aware they had infringed EC competition provisions. Finally, it was held that, when imposing such a fine, the Commission should only consider the turnover derived from products to which the infringement related, as opposed to undertakings' total turnover.

These findings were made in two cases before the Court relating to a distribution agreement between Parker Pen Ltd and Herlitz AG of Germany. Herlitz had refused to supply a Dutch company with Parker products because of a distribution agreement clause banning exports outside Germany. The Dutch company complained to the Commission, resulting in the imposition of fines on both Parker and Herlitz. Both challenged the Commission decision before the CFI.

Herlitz argued it was not dealing with Parker products on a wholesale basis but only sought to complete its own range of products of office equipment which it merely delivered to its own retail shops. Hence Herlitz intended actually to trade in Parker products, which is why it had neither the interest nor the intention of preventing parallel imports by relying on the export ban clause. The sole purpose of this clause was to enable Herlitz to refuse unwelcome demands. Also, the ban had no practical effect as Herlitz's products suited only German-speakers.

The CFI held an export ban, by its nature, restricted competition. The mere existence of such a clause could create a "visual and psychological" effect sufficient to make it unlawful, even if it had not been implemented. On the facts, however, the Court found Herlitz had invoked the clause to refuse to supply the Dutch complainant. Finally, the CFI concluded that, for an infringement of EC competition law to be intentional, so allowing the Commission to fine the undertaking, the

undertaking did not have to have been aware of an actual infringement. EC competition provisions. It was sufficient that it was that the object of the offending conduct was to restrict competition.

In its own appeal, Parker argued further grounds: first, the export ban did not appreciably affect trade between member states; second, the Commission had no interest in proceeding against Parker because the former had declined, in the absence of any public interest, to pursue a related complaint by the Dutch complainant; third, the Commission had not fined other companies accused of similar practices and, by fining Parker, the Commission had infringed the principle of equal treatment; and fourth, the fine was disproportionate.

The Court held on the first point that it was necessary to look at the position and importance of the parties in the relevant market. If sales of at least one of the parties constituted a not inconsiderable proportion of the relevant market, EC competition rules should apply. The CFI concluded from the facts that the respective position of the parties on the market was, in principle, capable of affecting intra-Community trade.

On the second point, the Court held the Commission had correctly used its discretion and not erred in law. On the third point, the Court reiterated European Court case law, which held an undertaking, having breached EC competition law, could not escape without penalty by arguing another trader had not been fined for similar conduct. On the final point, the Court held an appropriate fine could not be fixed by a simple calculation on total turnover, as had been done by the Commission in the present case. Rather, the Commission should only have considered the turnover of the goods to which the infringement related. Since Parker's turnover in those products accounted for only a relatively low proportion of this total turnover, the fine was disproportionate and so had to be reduced.

Cases T-58/92 and T-77/92: *Herlitz AG v Commission*; *Parker Pen Ltd v Commission* CFI 1CH July 14 1994

BRICK COURT CHAMBERS, BRUSSELS

In the world of US corporate governance, outside directors appear to be taking control of large public companies. The erstwhile imperial chief executive officer, the one-time striking examples are General Motors and IBM. There appear to be several reasons for this change.

First, courts are becoming much tougher on company directors. Good examples are the Delaware Supreme Court opinions in *Unocal v. Mesa Petroleum Inc.*, *Paramount Communications Inc. v. QVC Network Inc.*, and *Kahn v. Lynch Communication Systems Inc.* In each case, the defendants were board members of a company which had agreed to an acquisition by a favoured buyer. The Delaware Supreme Court had some fairly hard words for directors whose decisions are not entirely independent. Opinions of this kind spur directors to assert their independence from the chief executive officer, and thus a controlling shareholder, if they are one.

Pressure on boards from institutional investors is also an important factor. Courts and institutional shareholders have also been highly influenced by the commentary of academic lawyers, economists and a better informed financial press. The *Insider's Guide* still plays a role in corporate governance.

In many corporate governance reforms, the US appears to be ahead of the European Union. Compensation and audit committees of outside directors are the rule in public companies. Nominating (or corporate governance) committees of outside directors, which control the selection of directors, are becoming widespread.

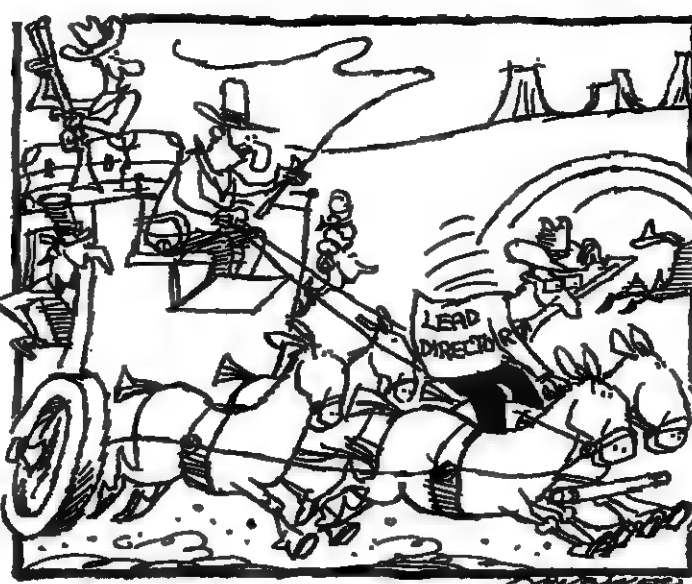
On the other hand, in the US, the positions of CEO and chairman of the board are usually still combined. However, the idea of a lead director, around whom the outside directors can mobilise when the CEO is also chairman of the board, is catching on. For example, although at present GM has an outside chairman of the board, the concept of a lead director is the second item on its new, widely publicised board guidelines on significant corporate governance issues.

It remains unclear what effect these changes have had on corporate performance. Unfriendly takeovers, the primary testing ground for corporate governance, in the 1980s have declined, primarily for economic reasons.

However, it is possible that one reason for the decline could be improved corporate governance, as directors reorganise companies before an overt takeover threat. But since many of these reorganisations have come late in the day, after the companies have suffered a great deal of damage, it is hard to view them as clear evidence of the new effectiveness of outside directors.

Role of the outsider

Leo Herzel reviews changes in US corporate governance and case law



Bad laws

The US legal system remains a big problem. For a long time, it has been suffocating under an accumulation of bad laws, and this state of affairs is becoming worse.

It is relatively easy to pass a new law in the US, but almost impossible to eliminate an existing bad one. Bad laws of any importance quickly develop a devoted following of powerful pressure groups who benefit greatly from them. The general public usually is relatively indifferent, not organised and ineffective. This is a crucial problem, since a large proportion of laws in any society inevitably turns out to be bad.

Courts provide some help in limiting the damage from bad laws, but not enough. One aggravating factor in the US is the constitutional right to trial by jury, combined with the reluctance of courts to dismiss legally weak cases at an early stage, before a jury trial. The result is that defendants must often settle for large sums or face the risk of even larger damages in a jury trial, possibly trebled under some statutes or with punitive damages added.

An extreme example of such a dangerous statute, where the courts have not helped as much as they should, is RICO, the federal

damage racketeering law. Congress has not eliminated or modified RICO, which is a favourite of plaintiffs' lawyers, a powerful political pressure group.

However, in *Central Bank of Denver v. First Interstate Bank of Denver*, the US Supreme Court was a little more daring. Overturning a lower court precedent, the court held there is no aiding and abetting liability under section 10(b) and rule 10b-5 of the Securities Exchange Act of 1934, on the ground that the language of the statute does not give aid to a person who merely gives aid to a person who commits a securities act. Since section 10(b) and rule 10b-5 are the heart of federal securities anti-fraud law, the case may be

helpful to accountants, lawyers and other organisations such as banks and investment banks, who are the natural beneficiaries of aiding and abetting allegations in litigation.

And in *Honda Motor Co. v. Oberg*, the US Supreme Court released a favourable signal on punitive damages. The Court held unconstitutional, as a deprivation of the federal constitutional right to procedural due process, an unusual Oregon provision, which prohibits judicial review of a jury's award of punitive damages. The reviewing court may affirmatively find there is no evidence to support an award.

Although the unusual nature of the Oregon constitutional provision, the Supreme Court's decision is narrow, as the language in the court's opinion offers encouraging signs that the court may be willing to deal with many problems of jury awards of punitive damages.

Contingent fees

Contingent fee litigation is an important and deeply embedded part of the US legal system.

In the ordinary course of individuals, contingent fees are not a problem. But in shareholder class actions, for example, lawyers usually have the only real economic interest on the plaintiff's side. In fact, lawyers usually own 100 per cent of these cases, since shareholders' interests in the claims are generally dispersed and small.

Lawyers in the US have some intimidating governmental powers. The most important of these powers is an almost unlimited right to discover facts, including the interrogation of witnesses at depositions. In theory, courts regulate and control these powers but, in fact, they do very little. Thus a combination of right to trial by jury, lawyers' governmental powers, the intense self-interest of plaintiffs' lawyers in the outcome of high stake litigation and the possibility of treble or punitive damages has created a potent anti-social mixture.

Lawyers' interests are becoming more of a problem in the system. They are defendants in contingent fee litigation almost as often as plaintiffs. But plaintiffs' lawyers who are beneficiaries of the system are a much more focused and better organised group than the victims. There is therefore little sign of change.

634 A.2d 345 (1993), 637 A.2d 1110 (1994), 113 S.Ct. 1163 (1993), 114 S.Ct. 1439 (1994), 62 USLW 4687 (Jun 24 1994). The author is a partner of Mayer, Brown and Platt in Chicago.

LEGAL BRIEFS



Shake-up for UK underwriters after Lords ruling

Insurance law permitting underwriters to reject claims in misrepresentation or non-disclosure has been substantially altered following a House of Lords judgment.

In *Pine Top v. Pan Atlantic*, the Lords upheld the right of reinsurer Pine Top to refuse claims made in 1982 because of Pan Atlantic's claims history prior to then.

However, the Lords ruled that insured parties can defeat underwriters' right to refuse claims on the grounds of non-disclosure or misrepresentation if they can prove that had the underwriter known the full facts at the time, they would still have taken on the business on the same terms.

The ruling will have serious consequences for underwriters, say insurance lawyers. Mr Robert Viney of Davies Arnold Cooper, a London law firm, said underwriters may have to testify as to what induced them to write a particular risk and be cross-examined about their underwriting practices.

Insured parties are also likely to make sweeping requests for disclosure of underwriting files in an attempt to prove their case, he said.

Lawyers' boss

Garth Linrup, partner and head of the European Union competition and commercial group at Manchester-based commercial law firm Addleshaw Sons & Latham, has been elected chairman of the Solicitors' European Group, which provides training for lawyers working in Europe.

Asia's fresh fields

Freshfields, a London law firm, has opened an office in Hanoi, Vietnam. The office is currently staffed with three lawyers, one British and two Vietnamese.

We call it the Global Digital Highway.

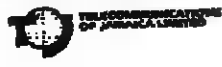
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It will improve your business worldwide.



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COMMODITIES AND AGRICULTURE

Kennecott under attack over diamond sampling

By Bernard Simon in Toronto

Canadian geologists and mining analysts have criticised Kennecott, the US subsidiary of UK mining group BTR, in the wake of disastrous sampling results from one of the most prominent properties in the Yukon Territory diamond rush.

The results have burst the bubble of euphoria which had enveloped the search for diamonds in a wide area of northern Canada during the past few years.

Share prices of companies involved in the stampede crashed since Kennecott announced last Friday that results from the highly-touted T1 Kwi Cho kimberlite pipe were far below expectations.

Some of Kennecott's junior partners have lost more than 50 per cent of their market value. For example, the Riverbank Resources plunged to \$31.99 early yesterday from \$51.75 just before Friday's announcement.

Mr John Tait, analyst at Dominion and Dominion Securities in Toronto, said yesterday the T1 Kwi Cho project was dead.

"Somebody might go back and look, but it will take a few years," Mr Tait said.

Kennecott owns a 10 per cent stake in the DHR joint venture, which was rushing to prove that T1 Kwi Cho could rival the nearby Lac de Gras mine, where a consortium comprising Australia's BHP Minerals and Di-Met Minerals of Canada is expected to give the go-ahead later this year for North America's first diamond mine.

"In hindsight, Kennecott's decision to go ahead with the project was fast," said Mr Chris Jennings, president of SouthernEra Resources, which has a 10 per cent interest in T1 Kwi Cho.

"The mentality of catching up with BHP and Di-Met cost them a lot of money, and at least a year," said Mr Jennings. T1 Kwi Cho is about 40km south-east of the BHP project.

Crustal sections in Kennecott's diamonds to go ahead with costly underground work on the basis of samples which weighed less than 2 carats and were retrieved from small narrow-diameter drill holes. Kennecott has spent an estimated \$100m on the underground project.

which involved bulk samples of 5,000 tonnes.

Mr Jennings said that Kennecott had "assumed an air of secrecy" in its joint venture participants.

He alleged that the UK company refused to allow its junior partners to visit its sampling plant at Yellowknife. He said that Kennecott failed to carry out a promise to allow them well in advance if results failed to live up to expectations.

Two principal kimberlite bodies were analysed from the T1 Kwi Cho pipe. The higher-grade body was especially disappointing, with fewer than 30 per cent of those diamonds more than 2mm in diameter.

Kennecott concluded that the results were not sufficiently encouraging to justify further bulk sampling from T1 Kwi Cho.

Mr Jennings, who has wide experience in diamond exploration, said there was an "outstanding chance" that the samples were not representative of the whole pipe.

Vegetable farms take root in Guatemala

Edward Orlebar writes on a co-operative approach that has spurred an export market

Marcelino Chiro, a 51-year-old farmer from Santiago Sacatepequez, has never looked back from the day a Swiss aid worker persuaded him to switch from growing maize and vegetables for the local market to growing cauliflower for export.

He used to own 5 cuerdas, or just over an acre. There were 3 cuerdas of maize in his family, and five to grow corn, beans, lettuce and maize which he would sell at the terminal in Guatemala City, after an hour's walk.

That was more than 10 years ago. Since joining the co-operative Cuatro Pasa in Santiago Sacatepequez, he has acquired 6 cuerdas - about 5 acres - through prudent saving, and

put all five of his children through school.

Mr Chiro, who is a Mayan Indian, still tills his 3 cuerdas of corn, the staple diet of his culture for thousands of years. On the rest of his land he grows broccoli, mango-tout - a type of aubergine - and has recently introduced radicchio.

"I did my sums and I realised I could earn about five times as much," he says.

The co-operative was the brain-child of Swiss aid workers who came to Santiago Sacatepequez, a village in the highlands west of Guatemala City, after a devastating earthquake in 1976 killed 100 people, mostly in and around the capital.

It provides technical assistance, health care, literacy teachers and cheap credit to its

members, from whom it buys export quality vegetables. The co-operative has grown from a membership of 20 to nearly 2,000, says Mr Esteban Sax, the deputy general manager, who was among the original members.

In its first year of exports in 1982 the co-operative sent about 100,000 lbs of mango-touts to the US. By last year exports had grown to more than 9.5m lbs of produce: principally mango-tout, but also peas, french beans, a range of baby vegetables, radicchio and raspberries.

About 85 per cent of exports goes to the US, air-freighted to Miami, and about 10 per cent to Europe, mostly to the UK. It was not difficult to persuade the apparently conserva-

tive farmers to switch to producing vegetables for export, which they remain ambivalent about consuming, from their traditional crops of maize and beans.

The incentive has been watching your neighbour buy a television, or even a pick-up," says Mr Luis Caniz, of this chamber of non-traditional exports.

Mr Caniz believes the co-operative model has been crucial in developing the burgeoning non-traditional agricultural sector. It hired agronomists to teach the farmers new techniques, provided investment and encouraged reinvestment in profits by its members.

Many of the non-traditional export crops such as mango-tout and broccoli are labour

intensive and lend themselves to being produced by small farmers, which has allowed Guatemala's highland Indians to be competitive, says Mr Caniz.

He estimates that about 100,000 indigenous people in the extremely poor and formerly war-ravaged western highlands are their principal source of income from export vegetables, having switched from the traditional staples.

Export earnings from vegetables have boomed in recent years from \$10.3m in 1986 to \$33m in 1993.

Mango-tout cultivation is expanding at around 10,000 manzanas a year, according to the Chamber of Exporters, and it is believed vegetable exports could double during the next five years.

PNG gold mine back in operation

By Nikhil Tuli in Port Moresby

The large Porgera gold mine in the Koro Province of Papua New Guinea, began operating again at the weekend after an explosion last week which left 11 people missing, presumed dead. The blast occurred at the explosives facility, a short distance from the mine.

The project is one of the largest gold mines outside South Africa and an important revenue source for the PNG government which has a 25 per cent interest in it. Similar mines are held by Placer Pacific, Remison Goldfields and Highlands Gold.

BHP Coal Australia yesterday shut down coalmining operations at Moura in Queensland, as rescue teams tried to find 11 people trapped underground in an accident on Sunday night. The mine was taken a heavy toll in the blast, in which 11 people were killed there in 1988 and 11 in 1978.

Forecast of good Indian jute harvest offers relief to mills

By Kunal Kishore in Calcutta

India, the world's largest producer of jute, is expected to harvest a bumper crop of 9m bales of jute in the 1994-95 season (July to June).

This should provide relief to the local jute mills which have been suffering from a minimum support price (MSP) for jute last year after a sharp setback in fibre production.

A spokesman for the Indian Jute Mills Association said the MSP of Rs700 a quintal, which was set in January in March had motivated the farmers in all western states to commit additional land to the crop. The jute commission's office says the land under jute in this season is up to 1.2m ha, up from 1.1m ha in 1993-94.

While the pre-monsoon showers have been timely, the monsoon, except in parts of Bihar and north Bengal, has been in spite of the big crop, the

growers hope to make "remunerative" prices for the crop throughout the season.

The late sowing in New York was largely technical, the market falling through previous resistance points with the

The quality of Indian jute has improved due to improper retting resulting from inadequate water. The crop's quality this season will be particularly good in Assam and West Bengal.

The jute season jute has started coming to the market in small quantities. Since the market arrival of the crop will start picking up from the middle of next month, the jute prices have remained

TD-5, the benchmark grade, is quoted at Rs700 (222) a quintal, ready delivery, against the MSP of Rs700 a quintal. In anticipation of a big swing, however, the forward delivery prices are quoted around Rs650 a quintal.

growers hope to make "remunerative" prices for the crop throughout the season.

The late sowing in New York was largely technical, the market falling through previous resistance points with the

The quality of Indian jute has improved due to improper retting resulting from inadequate water. The crop's quality this season will be particularly good in Assam and West Bengal.

The jute season jute has started coming to the market in small quantities. Since the market arrival of the crop will start picking up from the middle of next month, the jute prices have remained

TD-5, the benchmark grade, is quoted at Rs700 (222) a quintal, ready delivery, against the MSP of Rs700 a quintal. In anticipation of a big swing, however, the forward delivery prices are quoted around Rs650 a quintal.

Coffee sees big plunge

Funds and speculators bailed out of coffee in New York and London yesterday, sending prices plummeting.

The late sell-off in New York was largely technical, the market falling through previous resistance points with the

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Supply deficit in nickel likely

By Kenneth Gooding, Mining Correspondent

The nickel market is this year heading for a supply deficit, according to the International Nickel Company (INCO), which is the world's largest nickel producer.

However, the deficit - forecast to be 8,000 tonnes - will be "only a drop in the ocean" given the surplus of nickel (totalled 110,000 tonnes) accumulated in the last three years.

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BASE METALS

LONDON METAL EXCHANGE

Aluminium, 99.99% (per tonne)

Close 1429.5-1430.5 1429.5

High/Low 1429.5-1430.5 1429.5

Official 1429.5-1430.5 1429.5

Market 1429.5-1430.5 1429.5

Open 1429.5-1430.5 1429.5

Close 1429.5-1430.5 1429.5

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PRECIOUS METALS

LONDON METAL EXCHANGE

Gold, 999.9 (per ounce)

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High/Low 377.80-378.20 377.80

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Market 377.80-378.20 377.80

Open 377.80-378.20 37

LONDON STOCK EXCHANGE

MARKET REPORT

Economic data help shares to a firm close

By Terry Byland,
UK Stock Market Editor

Share prices held firm in London yesterday with the help of favourable news on domestic price inflation and consumer credit. Trading volume was unexciting, however, and the market had to struggle against the effects of ex-dividend quotations in a number of leading stocks.

London was overshadowed in the first half of the session by concern that the US Federal Reserve might raise interest rates in the wake of the strong US inflation figures announced on Friday afternoon. UK shares edged forward towards the close as the US market regained confidence.

At the close, the FT-SE 100 index showed a gain of 4.4 at 3,171.9. The broader-based FT-SE Mid 250 index

continued its advance, closing at further 13.8 at 3,726.7.

Traders responded positively to the disclosure that producer prices in the UK had risen by only 1.9 per cent in July, indicating that domestic inflation was still subdued and thus reducing pressures on the Bank of England to lift base rates. However, nervousness towards rate prospects continued, with market traders anxiously scanning comments in the European press by the Bank of England Governor.

Share prices made slow progress until the New York market opened, however. The US market opened with a substantial gain, but credit in June was not as good as market and retail and consumer credit responded well to this latest indication that retail spending might provide the back-

ing for economic recovery.

The Dow Industrial Average was 10 points up at the London close, although UK markets remained wary of a move by the Federal Reserve during a trading week studied with important US economic data.

Sea trading volume, at 547.3m shares, was about 6 per cent down from the previous month and left traders with a good deal of time on their hands. Friday's retail or genuine customer investment business in equities was worth £1.26bn. This figure is just about satisfactory, from the point of view of the London Stock Exchange, which pointed to a generally unexciting performance.

European bourses, which had reflected the prospect of a difficult, lightly traded summer holiday

week. In addition to the latest data on US retail sales and producer prices, this week brings another appearance before Congress of Mr Alan Greenspan, chairman of the US Federal Reserve, and a sizeable US funding programme. This morning, the London market faces the domestic trade figures for May.

The UK markets are expected to remain quiet this month, barring any sudden move on US interest rates. In the wake of the Bank of England's Quarterly Bulletin published last week, equity market analysts hope that the widely anticipated rise in UK base rates can be postponed, at least until next month.

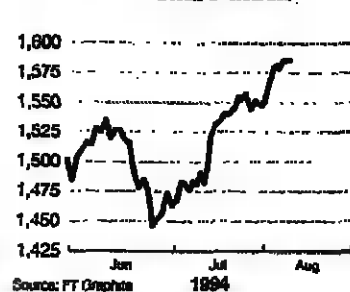
The blue chip dollar stocks made little headway, in spite of the rally in New York. Hopes for news of a sizeable takeover move in the phar-

maceuticals industry continued to circulate but trading volume died away. The big oil stocks could make little fresh response to activity in crude oil markets. There was a good deal of switching among banking stocks as institutions sought out the best growth opportunities.

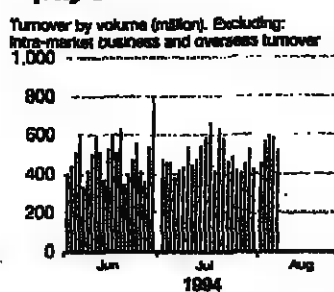
The best gains came in the stores sector, where the domestic consumer credit figures brought in a hopeful buyers. Many of the high street names managed to put on a few pence, but traders admitted that individual share volumes had not been particularly impressive.

There was also demand, again, in the UK construction sector, with links following further evidence of a recovery in the economy and the building industry in that country.

FT-SE-A All-Share Index



Equity Shares Traded



Key Indicators

Indices and ratios	Value	% Chg
FT-SE 100	3171.9	+4.4
FT-SE Mid 250	3726.7	+13.8
FT-SE-A 350	1801.1	+3.0
FT-SE-A All-Share	1587.71	+3.10
FT-SE-A All-Share yield	3.76	-0.17

Worst performing sectors

Worst performing sectors	% Chg
1 Tobacco	-4.5
2 Water	-1.1
3 Household Goods	-0.7
4 Oil, Integrated	-0.4
5 Distributors	-0.2

Best performing sectors

Best performing sectors	% Chg
1 Engineering, Vehicles	+1.2
2 Engineering	+1.1
3 Retailers, General	+1.0
4 Gas Distribution	+0.9
5 Food Manufacturers	+0.8

Reckitt off on buy talk

Reckitt products group Reckitt & Colman slid on speculation that it was poised to buy Kodak's household products division between £1.7bn and £2bn.

Reckitt ended the day down 7 at 614p as analysts wondered how the company would get hold of the necessary cash and that a buy-out by holders was the only way.

However, Lehman Brothers argued that Reckitt was an unlikely candidate and that global rivals Colgate-Palmolive, Unilever and Procter & Gamble were more plausible buyers.

Jo Walton, Lehman's pharmaceuticals analyst, said the company would be able to service additional debt of only £1.5bn. She said it was more likely that the company could buy some lines of Kodak's Stirling Whitcomb arm might provide a good fit.

Meanwhile, Unilever, which reports second-quarter figures on Friday, strengthened 14 to 1081p. The Anglo-Dutch group is expected to announce profits

of between £500m and £550m.

BA tumbled 12 to 417p in heavy trading of 9.2m as investors took profits following first-quarter figures below market expectations.

Earnings of £88m fell short of the range of market forecasts of £90m to £95m. And although analysts were pleased with underlying profitability, they were on the nerves over performance of the airline's assets such as TAT, the regional French carrier in which BA has a significant stake.

Charterhouse Tilney downgraded its full-year profits pre-

diction by £15m to £450m and said: "Underlying profitability is well ahead of our expectations and growing strongly, but this is offset by the disappointing performance of the..."

However, the fall came after a period of sustained strength. Since the market began to turn the corner at the end of June, BA shares have outperformed the FT-SE Actuaries All-Share index by almost 7 per cent.

Regional electricity stocks generally maintained the strong progress made last week, anticipating a better than expected outcome to the distribution review which should be known on Thursday.

Dealers reported heavy switching out of Scottish Power, which fell 10p to 389p, and into Scottish Hydro-Electric, 18p stronger at 389p.

Dealers in the financial area of the market had them- selves for the next set of interim figures from the big banks, those of Barclays, which fell 10p to £770m, with a dividend expected to be lifted to 5p from last year's 6.5p.

Barclays moved up 10p to 389p, closely followed by TSB, a firmer at 212p.

Merchant banks, meanwhile, came in for some aggressive buying, with Kleinwort Benson climbing 8 to 530p in the wake of sizeable switching out of S.G. Warburg, down 6 at 777p, following a 10p drop in profits from the former.

The oil majors remained under pressure in spite of firmer crude oil prices yesterday, with dealers citing further switching out of the UK majors and into the US leaders.

BP was the worst affected, slipping 3p to 406p in heavy turnover of 12m shares, the heaviest individual turnover in the stock market yesterday. Shell held at 739p on 2m traded ahead of interim figures due on Thursday.

Some analysts said the market had become too complacent about the impact of the strike by workers in the Nigerian offshore, which they felt could drive prices higher in the short term.

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (FT-SE 100): 3171.9 (FT-SE 100), 3726.7 (FT-SE Mid 250), 1801.1 (FT-SE-A 350), 1587.71 (FT-SE-A All-Share), 3.76 (FT-SE-A All-Share yield).

NEW LOWS (FT-SE 100): 1425 (FT-SE 100), 1425 (FT-SE 100), 1425 (FT-SE 100), 1425 (FT-SE 100), 1425 (FT-SE 100).

inspiring demand for regional brewing groups. Among these, Regent Inns firmed 10p to 300p and Wolverhampton & Dudley 3 to 331p. Among the majors, Smith & Nephew rose 5p to 534p and B&Q 3 to 525p.

However, Marston Thompson & Eversheds was warning analysts at the age that the good weather was being offset by hesitant consumer spending, and that profits upgrades would be premature. The shares edged forward 1p to 315p.

An agency cross deal was buying by investors buoyed Grand Metropolitan, up 1p to 315p on turnover of 7.9m.

Advertising agency Saatchi & Saatchi was one of the star performers in London after the company posted a half-profit of £15.3m, against only £1.5m a year ago. The shares jumped 15 to 176p. WPP, which reports interim profits today, put on 3 at 111p and Anglia rose 10 to 304p, both on consideration of the Saatchi profits numbers.

The move by The Today newspaper to cut its price to 10p bid Daily Mail & General Trust "A" shares, which fell 20 to 103p, The Telegraph, down 10 at 307p, and United Newspapers, the owner of the Daily Express, which fell 24 to 506p.

Enam gained 7 at 430p after Trans World decided to recommend the group's bid.

EQUITY FUTURES AND OPTIONS TRADING

Stock index futures traded in a tight 15-point range in an otherwise dull and uneventful session which saw most of the leading institutions shy away.

FT-SE 100 INDEX FUTURES (LIPPS 250 per full index point)

Open	Sett price	High	Low	Sett vol	Open int
3171.9	3171.9	3171.9	3171.9	3232	55543
3171.9	3171.9	3171.9	3171.9	55	4015

FT-SE MID 250 INDEX FUTURES (LIPPS 250 per full index point)

Open	Sett price	High	Low	Sett vol	Open int
3736.0	3736.0	3736.0	3736.0	30	4491

FT-SE 100 INDEX OPTION (LIPPS 250 per full index point)

Open	Sett price	High	Low	Sett vol	Open int
3171.9	3171.9	3171.9	3171.9	3232	55543

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INVESTMENT TRUSTS - Cont.

فوائد الاكل

INVESTMENT TRUSTS - Cont.[illegible]**LEISURE & HOTELS - Cont**[illegible]**OIL EXPLORATION & PRODUCTION - Cont**[illegible]**PROPERTY Cont.**[illegible]

INTERNAL SECURITY - CUBA **C**

[illegible]

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[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

OFFICE PHONE	11	11
HOME PHONE	11	11
CELL PHONE	11	11

[illegible]

14

Chorion Inc.	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	187	18
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110

[illegible]

TELECOMMUNICATIONS

[illegible]

Imported Oil	_____	11
Taxes	_____	12
Non-Cash Assets	_____	13

[illegible]

RESUME HOTELS

[illegible]

Pot CS	72½	+1½	98½
Energy	4771	—	55

Age Gen PY	160	+1	188	7
Age Gen PY	161	+1	187	7
Age Gen PY	70		76	6
Age Gen PY	45		74	3
Age Gen PY	24		69	5
Age Gen PY	6		94	8
Age Gen PY	62	+4	50	12
Age Gen PY	3		13	6
Age Gen PY	3		7	4
Age Gen PY	183		108	75
Age Gen PY	111		111	0
Age Gen PY	30	+4	32	2
Age Gen PY	128		165	37
Age Gen PY	165		124	41
Age Gen PY	250	-3	44	206
Age Gen PY	250	-3	44	206
Age Gen PY	50	+6	81	31
Age Gen PY	50	+1	87	37
Age Gen PY	64	-1	77	13
Age Gen PY	30	+12	16	16
Age Gen PY	128	-8	187	59
Age Gen PY	48	-3	49	1

Edm Pbl	E12B	+1 ₁	E14J	E9H	361.0	9.9
A B Gkr	584 ₁	-37 ₁	1236 ₁	834 ₁	1,224	8.0

[illegible]

ingénieur	107	515	-
concevoir	24	285	-

Party	408
Polys Chemicals (1)	\$19
Polys Corp	139
Polys Fertilizer	240
Polys Inc	712
Polys and Spac	431
Polys (1)	576
Polys Bros	327
Polys	280
Polys	148
Polys	71
Polys	255
Polys	77
Polys Fine	24
Polys	170
Polys Shop	30
Polys	31
Polys	169
Polys	823
Polys	841
Polys Co (1)	841
Polys A S	813
Polys	2280
Polys	2372
Polys S Stone	176

Speed Limit 100	130	142	12
Passing Br Force 200	275	-1	313 1/2
AAA	200	18	253 1/2

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	ask	Cur	Old	Offer	+ or -	Yield
	Quote	Price	Price	Price	-	%s

[illegible][illegible][illegible][illegible][illegible][illegible]

Profile Unit Tot Mrgs Ltd (100%)									
Incorporated in: US Virgin Islands (50% US)									
Employees: 071-000-2000									
Incorporated: 1980									
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[illegible]

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INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commissions paid to brokers. Initial charge is levied on the price of units.

REDEMPTION PRICE: Amount to which units are redeemed.

NET ASSET VALUE: Also known as the **BID PRICE:** Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between cancellation price and redemption price is 10% and is levied on the units. The cancellation formula falls down by the government, in which case the cancellation price is the redemption price. The cancellation price is the minimum amount that can be redeemed. As a result, the bid price is the maximum amount that can be redeemed. The cancellation price is the minimum amount that can be redeemed. The cancellation price is the minimum amount that can be redeemed.

SCHEME PARTICULARS AND REPORTS: The most recent report and accounts of the fund. The scheme particulars are the most recent report and accounts of the fund. The scheme particulars are the most recent report and accounts of the fund.

THE THREE STAGES OF THE FUND: The three stages of the fund are: 1. The first stage is the initial charge. 2. The second stage is the redemption price. 3. The third stage is the cancellation price.

THE FUND'S INVESTMENT POLICY: The fund's investment policy is to invest in the following assets: 1. Equity securities. 2. Fixed income securities. 3. Real estate. 4. Commodities. 5. Other assets.

THE FUND'S RISK PROFILE: The fund's risk profile is as follows: 1. Equity securities. 2. Fixed income securities. 3. Real estate. 4. Commodities. 5. Other assets.

THE FUND'S PERFORMANCE: The fund's performance is as follows: 1. Equity securities. 2. Fixed income securities. 3. Real estate. 4. Commodities. 5. Other assets.

THE FUND'S FUTURE PROSPECTS: The fund's future prospects are as follows: 1. Equity securities. 2. Fixed income securities. 3. Real estate. 4. Commodities. 5. Other assets.

THE FUND'S CONTACT INFORMATION: The fund's contact information is as follows: 1. Equity securities. 2. Fixed income securities. 3. Real estate. 4. Commodities. 5. Other assets.

THE FUND'S LEGAL STRUCTURE: The fund's legal structure is as follows: 1. Equity securities. 2. Fixed income securities. 3. Real estate. 4. Commodities. 5. Other assets.

THE FUND'S TAX STATUS: The fund's tax status is as follows: 1. Equity securities. 2. Fixed income securities. 3. Real estate. 4. Commodities. 5. Other assets.

THE FUND'S REGULATORY COMPLIANCE: The fund's regulatory compliance is as follows: 1. Equity securities. 2. Fixed income securities. 3. Real estate. 4. Commodities. 5. Other assets.

THE FUND'S FINANCIAL STATEMENTS: The fund's financial statements are as follows: 1. Equity securities. 2. Fixed income securities. 3. Real estate. 4. Commodities. 5. Other assets.

THE FUND'S AUDITORS: The fund's auditors are as follows: 1. Equity securities. 2. Fixed income securities. 3. Real estate. 4. Commodities. 5. Other assets.

THE FUND'S INVESTMENT ADVISORS: The fund's investment advisors are as follows: 1. Equity securities. 2. Fixed income securities. 3. Real estate. 4. Commodities. 5. Other assets.

THE FUND'S PORTFOLIO MANAGER: The fund's portfolio manager is as follows: 1. Equity securities. 2. Fixed income securities. 3. Real estate. 4. Commodities. 5. Other assets.

THE FUND'S BOARD OF DIRECTORS: The fund's board of directors is as follows: 1. Equity securities. 2. Fixed income securities. 3. Real estate. 4. Commodities. 5. Other assets.

THE FUND'S ADVISORY BOARD: The fund's advisory board is as follows: 1. Equity securities. 2. Fixed income securities. 3. Real estate. 4. Commodities. 5. Other assets.

THE FUND'S INVESTMENT POLICY STATEMENT: The fund's investment policy statement is as follows: 1. Equity securities. 2. Fixed income securities. 3. Real estate. 4. Commodities. 5. Other assets.

THE FUND'S RISK FACTOR STATEMENT: The fund's risk factor statement is as follows: 1. Equity securities. 2. Fixed income securities. 3. Real estate. 4. Commodities. 5. Other assets.

THE FUND'S PERFORMANCE STATEMENT: The fund's performance statement is as follows: 1. Equity securities. 2. Fixed income securities. 3. Real estate. 4. Commodities. 5. Other assets.

THE FUND'S FUTURE PROSPECTS STATEMENT: The fund's future prospects statement is as follows: 1. Equity securities. 2. Fixed income securities. 3. Real estate. 4. Commodities. 5. Other assets.

THE FUND'S CONTACT INFORMATION STATEMENT: The fund's contact information statement is as follows: 1. Equity securities. 2. Fixed income securities. 3. Real estate. 4. Commodities. 5. Other assets.

THE FUND'S LEGAL STRUCTURE STATEMENT: The fund's legal structure statement is as follows: 1. Equity securities. 2. Fixed income securities. 3. Real estate. 4. Commodities. 5. Other assets.

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INSURANCES

● FT Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (671) 873-4378 for more details.

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Bailie Gifford & Co Ltd					
8-11 Duff Assg 2	791.5	917.3	=	1.00	
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100 Corporation, London EC2M 3JF					
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Cashable Funds					
CAF Growth & Income	92.32	92.41	=	2.5	
CAF - Charities & Mission Management					
48 Farnley Rd					
Investment Growth	92.36	92.39	=	2.74	2.9%
CMS Unit Trust Managers Ltd					
Po Box 28 Bristol BS1 1LH	92.322	92.301	=	3.00	
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LUXEMBOURG (REGULATED) ⁽¹⁰⁴⁾[illegible]

MARKETS REPORT

Dollar firms against yen

The dollar yesterday reached a six week high against the yen, helped by sales of the Japanese currency against the D-Mark.

Market conditions, however, were fairly quiet, and in the absence of any compelling fundamental factors to explain the dollar's relative strength, analysts were disinclined to attribute any significance to the move.

The dollar finished in London on Friday at Y101.345 from Y100.48 on Thursday. Against the D-Mark it closed at DM1.611 from DM1.582.

Traders noted that much of the yen selling was seen against the D-Mark. It closed at Y64.11 against the D-Mark currency from Y63.49 on Friday.

Helped by this strength against the yen, the D-Mark was generally stronger in Europe. It finished at FF3.424 against the French franc from FF3.422.

The lira was fairly stable at L1.171 from L1.170, with the parliamentary recess having taken the spotlight off the lira.

One currency that was up fairly well against the D-Mark was sterling, which finished at DM2.438 from DM2.439 on Friday. It was also up against the dollar, at \$1.542 from \$1.541.

Analysts were slightly mystified by the firmer dollar which seems as much to reflect a desire to buy the dollar as to buy the US currency. Indeed, trade in the dollar market is reported to have been at similar levels to that in dollar/yen. This suggests that the market was happy to sell but preferred buying the D-Mark rather than dollars.

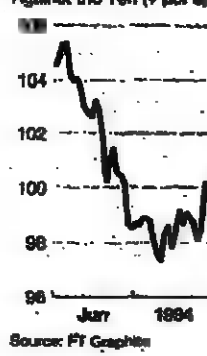
The dollar has recovered from a post-war low of \$1.141 against the yen and a 30-month low against the D-Mark at DM1.616, on July 12.

Mr. Sirrow Barrow, international economist at Chemical Bank in London, said Y84 against the D-Mark was a significant technical level and a breach of it had probably prompted a short covering by those who held long positions.

Other factors supporting the

Dollar

Against the Yen (¥ per \$)



Source: FT Graphix

	Open	High	Low	Close
1st	101.345	101.345	101.345	101.345
2nd	101.345	101.345	101.345	101.345
3rd	101.345	101.345	101.345	101.345
4th	101.345	101.345	101.345	101.345

As Pooled in New York

	Open	High	Low	Close
1st	101.345	101.345	101.345	101.345
2nd	101.345	101.345	101.345	101.345
3rd	101.345	101.345	101.345	101.345
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4th	101.345	101.345	101.345	101.345

As Pooled in New York

had fallen by about 25

points to 97.5 from 122.5 in 97.5.

This move in the Japanese rate markets may account for some of the recent trend of Japanese funds to shift out of yen assets. One symptom of this trend will be the extent to which the Japanese participate in the sterling refunding.

Mr Brian Durrant, economist at brokers GNI, said: "If Japanese institutions are on the threshold of recycling Japan's current account surplus, then \$/¥m could rise."

UK markets seemed to have shaken off their recent concerns about higher UK rates. Three month sterling LIBOR remained unchanged at 5 1/4 per cent while overnight rates were up to 5 1/8 per cent.

Yields were light, but the December sterling bond market finished at 93.34. The market was helped by subdued producer inflation data, with output prices unchanged in July, and input prices increasing at an annual 2.6 per cent.

However, a record level in June. Analysts said that seemingly benign combination of firm economic growth, without inflation problems, was making UK assets attractive and could explain why sterling had been stronger recently.

In the daily operations, the Bank of England provided a 20th shortage. Overnight money traded at 2 1/2 per cent and 4 1/2 per cent.

In Germany call money rates were up to 4.85/4.95 per cent on Friday. The rate was expected to drop to 4.75 per cent tomorrow. The repo rate is currently fixed at 4.85 per cent.

Other factors supporting the

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POUND SPOT FORWARD AGAINST THE POUND

Aug 8	Closing mid-point	Change	Sett/off	Day's bid low	Day's ask high	One month %p/a	Three months %p/a	Six months %p/a	One year %p/a	Bank of England %p/a
Europe	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Austria	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Denmark	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Finland	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
France	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Germany	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Greece	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Ireland	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Italy	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Netherlands	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Norway	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Portugal	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Spain	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Sweden	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Switzerland	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
UK	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
USA	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Canada	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Japan	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
South Africa	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
India	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
China	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
South Korea	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Indonesia	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Malaysia	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Philippines	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Singapore	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Taiwan	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Thailand	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Argentina	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Brazil	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Chile	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Colombia	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Costa Rica	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Cuba	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Ecuador	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
El Salvador	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Honduras	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Kenya	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Laos	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Maldives	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Mali	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Morocco	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Mozambique	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Niger	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Nigeria	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Rwanda	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Senegal	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Sierra Leone	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Somalia	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Tanzania	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Togo	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Tunisia	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Zambia	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		
Zimbabwe	1.542	-0.001	1.541	1.541	1.542	1.541	1.541	1.541		

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AMERICA

Bond yields offer modest boost to Dow

Wall Street

US share prices edged higher yesterday morning in quiet trading as a drop in bond yields provided a modest boost to stock market sentiment, writes Patrick Harverson in New York.

By 1pm, the Dow Jones Industrial Average was up 6.47 at 3,753.49. The more broadly based Standard & Poor's 500 was also slightly firmer, up 0.54 at 457.63, while the American Stock Exchange composite was 1.12 higher at 414.45 and the Nasdaq composite 1.04 ahead at 719.71. Trading volume on the NYSE was light at 124m shares by 1pm.

After last week's late sell-off, which was prompted by a surge in bond yields, trading was expected to be subdued yesterday. Bond yields had risen on Friday because a stronger than expected July jobs report had raised fears that the Federal Reserve would tighten interest rates again to slow down the economy.

When bond yields opened lower in the morning, it provided a lift to share prices. A slight firming in the dollar also supported stocks early on but trading activity remained light, with many investors and dealers choosing to stay on the sidelines until later in the week, when July inflation figures are due to be released.

Among individual stocks, leading issues were mostly firmer, although gains were kept to a minimum. General Motors was up 5¢ at \$50.75, IBM 3/4¢ higher at \$62.00, Merck up 3/4¢ at \$30.00 and Procter & Gamble 3/4¢ higher at \$54.00.

North American Mortgage forged ahead 32¢ to \$30.00 in

heavy trading after the mortgage banking company revealed that it had asked Morgan Stanley to advise on strategic alternatives to enhance shareholder value.

Molecular Biosystems

jumped 2 1/4% to \$19 1/4 after the US Food and Drug Administration gave final approval for Alunox, the company's flagship product, which is used as a contrast-imaging agent.

Yesterday's other main

theme was mobile telephone

prospects, said Mr Eckhardt

Frahm at Merck Finck in Düsseldorf.

The companies

noted that the group had been

from major international companies

such as Polygram, Philips, Royal Dutch, KLM and Reed Elsevier. The AEX index

rose 1.08 to 421.35.

Philips, which climbed 60

cents to \$1.40, compared with

its Polygram subsidiary, was

rated a strong buy by Hoare

Covett. The broker

noted that the group had been

a beneficiary of the higher dollar,

an improvement in the US

economy, and growth in sales.

By contrast, it rated Polygram

as a "hold", believing that good

results had already been discussed.

The day's strongest performance

came from Reed Elsevier,

which advanced \$1.30 to \$173.10,

and Unilever, up

centimes at FF453.40.

Thyssen

Share price (DM)

320

300

280

260

240

1994

Source: FT Graphics

FT-SE Actuaries Share Indices

Aug 8

Aug 7

Aug 6

Aug 5

Aug 4

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Aug 2

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